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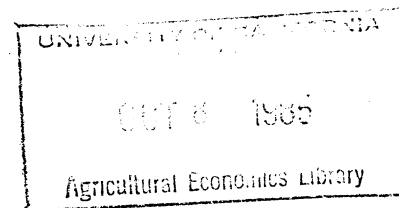
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Government and Agriculture:

A Comparison of Agribusiness and Farm Operator Views

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ABSTRACT

Illinois and Ohio agribusiness operators and farm operators were asked their opinions concerning farm policy issues. Agribusiness operators were significantly less supportive of production control programs. On most other issues agribusiness and farm respondents were in general agreement. However, significant internal disagreement is evident within each sector.

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## Government and Agriculture: A Comparison of Agribusiness and Farm Operator Views

The 1983 payment-in-kind program affected the operations of many agricultural businesses that serve farmers. In many communities, the program benefitted farmers financially but hurt agribusinesses by reducing their business volumes. Consequently, despite a fairly passive role in past farm policy discussions, the agribusiness sector has become more active in the debate over the 1985 version of agricultural and food legislation. This change in the political environment, suggests that the views of agribusiness operators on crucial policy issues should be elicited and their views compared with those of farm operators.

Prior to enactment of the two most recent farm bills, farm operators in several states have been surveyed about major policy issues and alternatives(1, 3). Again in 1984 a similar survey was conducted in 17 states(2). A companion survey of agribusiness operators was also conducted in two states, Illinois and Ohio, to gain insight into the extent to which agribusiness and farm operators hold different views toward farm policy. This paper reports the findings.

### Overview of Illinois and Ohio Agriculture

Illinois and Ohio are representative of the central and eastern corn belt. Illinois, with a land area of 35,612,601 acres, has 81 percent of its land in farms(8). Agricultural Census data show that in 1982 Illinois had 98,483 farms averaging 292 acres. About 85 percent of these were individual or family-owned. The average value per farm was \$538,886 or \$1,837 per acre. Corn, soybeans, and wheat are the principal crops accounting for 76 percent of all farm acreage in 1982. Total cash receipts from the sale of agricultural products in 1982 were \$7.8 billion. About 70 percent came from crops and 30 percent from livestock and livestock products.

Ohio, with a total land area of 26,242,662 acres, has about 59 percent of its area in farms (9). The 1982 Census reported 86,934 farms with an average size of 177 acres. Individual or family-owned farms comprise 86 percent of the total. The average value per farm in 1982 was \$267,899 or \$1,504 per acre. Corn, soybeans and wheat are the principal crops and are planted on 59 percent of the state's farm acreage. Total cash receipts from sales of agricultural products in 1982 were \$3.36 billion with about 58 percent from sale of crops and 42 percent from the sale of livestock and livestock products.

In 1983, Illinois farmers received \$542.7 million in direct government payments, about 6 percent of the national total (7, p. 143). Ohio farmers received \$170.7 million, about 2 percent of the national total.

#### The Surveys

In March 1984, 500 questionnaires were mailed to equal numbers of agricultural bankers, farm equipment dealers, fertilizer and chemical dealers, seed dealers, and grain and feed dealers in Illinois. In April, 295 questionnaires were mailed to Ohio firms whose business included supplying fertilizers, chemicals, seed, machinery and equipment and other farm supplies and/or the marketing of grains, livestock or livestock products. The sample in each state was selected from names supplied by trade associations and is believed to be representative of each group. This report is based on 352 responses from agribusiness operators: 259 in Illinois and 93 in Ohio. Response rates were 52 percent in Illinois and 32 percent in Ohio.

The questions used in the agribusiness survey were nearly identical with those used in a survey of Illinois and Ohio farmers taken at about the same time. Responses to the farm operator survey numbered 951; 527 in Illinois and

424 in Ohio. Response rates were 35 percent in Illinois and 21 percent in Ohio. Farm operator respondents were representative of farmers in the two states except that on average they farmed more land than the average size of farm as shown in the Census of Agriculture (8, 9).

Opinions Concerning the General Orientation  
and Determination of Farm Programs

Both the respondent agribusiness and farm operators indicated significant discontent with the current farm program, which is composed of price support, government financed storage, and voluntary production control provisions (Table 1). Only 36 percent of agribusiness and 33 percent of farm operators preferred continuation of the present program after 1985. The present program, however, did receive support from a plurality of both groups. Approximately 30 percent of agribusiness and farm operator respondents favored a supply management approach--mandatory set asides or acreage allotments/marketing quotas. About one-fourth of both groups supported elimination of set aside, price support, and government storage programs.

Taken as groups, agribusiness and farm operators differed little on the future general orientation of farm policy. Furthermore, both groups indicated that change is desired in the basic approach to federal farm policy; however, little agreement existed within either group regarding what that change ought to be. A majority of both agribusiness and farm operator respondents would neither support the free market nor supply management.

General dissatisfaction was also reported with the process used to make farm policy. Continuation of the present system was favored by only 26

Table 1. Preferred Policy of Agribusiness Operators and Farm Operators Toward Production Controls and Price Supports After 1985, Illinois and Ohio, Spring 1984.

Farm Program	Agribusiness Operators	Farm Operator
	percent <sup>a</sup>	
Keep present voluntary programs	36	33
Mandatory set aside program in years of excess supply if approved by farmer referendum	26	20
Re-establish acreage allotments and marketing quotas	4	9
Eliminate set aside, price support and government storage programs	26	25
Undecided	2	6
Other	4	6
No response	1	0
Total <sup>b</sup>	100	100

<sup>a/</sup> Percentages are based on the following number of responses per category: agribusiness: 352, and farm - 903.

<sup>b/</sup> Total may not add to 100 due to rounding.

Source: Original Survey Data.

Table 2. Support of Agribusiness Operators and Farm Operators for Continuation of Specific Farm Program Provisions, Illinois and Ohio, Spring 1984.

Program Provision	Agribusiness Operators	Farm Operators
	percent <sup>a</sup>	
Target prices and deficiency payments	50	54
Acreage diversion payments	42	49
Farmer-owned reserve	46	50
Payment-In-Kind <sup>b/</sup>	39	53
Milk production diversion payments <sup>b/</sup>	25	32

<sup>a/</sup> Percentages are based on the following number of responses per category: agribusiness - 352 and farm - 903.

<sup>b/</sup> Percentages obtained by adding together the percentages who strongly agreed and agreed that these program provisions should be continued if large grain stocks appear again or if milk production remains excessive.

Source: Original Survey Data.

percent of the responding agribusiness operators and 23 percent of the farm operators. This system, which has been in place for over fifty years, involves farm policy established by Congress and administered by the Secretary of Agriculture.

Thirty-seven percent of the agribusiness operators and 25 percent of the farm operators favored the appointment of an independent board or commission to make farm policy. An additional 28 percent of the agribusiness respondents and 40 percent of the farm respondents favored letting producers organize, control and finance their own program. Thus, 65 percent of the respondents in both groups favored a change from the current policymaking process to one which provides a more active role for farmers and/or others who are not directly part of the federal government's legislative or administrative structure.

A statistically significant (at the 99 percent level of confidence) smaller proportion of agribusiness and farm operators were satisfied with the current policy process than with the current program. However, disagreement on what if any program should be implemented may underpin dissatisfaction with the policy process. Disagreement among and between agribusiness and farm groups over the future course of policy opens the policy process to increased influence by other interest groups. The relative importance of the agricultural sector, therefore, is reduced. This decrease in influence may be translated into dissatisfaction with the policy process and a desire to enhance control through a different process.

#### Opinions Concerning Specific Policy Instruments

Under existing legislation the farm programs are implemented through a variety of instruments including target prices/deficiency payments, acreage diversion, farmer-owned grain reserve, payment-in-kind, and payment for milk production cutbacks. Excluding agribusiness and farm operator views on the

milk diversion program and agribusinessmen's views on the payment-in-kind program, the two group's support for continuation of these specific programs was significantly greater (at the 90 percent confidence level) than was support for the current farm program's general orientation (Tables 1 and 2).

Compared with farm operators, a smaller percentage of agribusiness operators supported continuation of these policy instruments. The difference in support was significantly smaller at the 95 percent level of confidence for those programs which reduce output: acreage diversion payments, milk diversion, and especially payment-in-kind (PIK). These programs reduce the potential volume of business available to agribusinesses and, hence, are likely to be viewed as a threat to their profits.

Relative to the traditional acreage diversion payment program, fewer agribusiness operators and more farm operators supported the PIK program. Thus, while general opposition to production control programs explains part of the agribusiness community's dissatisfaction with PIK relative to the opinions of farm operators, it would appear that the size of the acreage withdrawals under PIK was also significant.

Both agribusiness operators and farm operators gave their greatest support to target prices/deficiency payments. This probably reflects the income-enhancing impacts of deficiency payments for grain producers which, in turn, increases crop production and stabilizes farm income. Agribusinesses, in turn, benefit from selling more inputs and from serving a more financially stable clientele.

Continuation of payments for diverting milk production was supported by only one-fourth of agribusiness operators and about one-third of farm operators. Thus, the dairy program had little support among Illinois and Ohio agribusiness and farm operators. However, since the diversion program was relatively new at the time of the survey, opinions may have since changed.



### Opinions Concerning Operationalization of Specific Policy Instruments

Many people believe that current price support loan rates are too high and therefore discourage both domestic and foreign consumption. One suggested policy change is to base the loan rate on the average market price for the past three to five years. Fifty-four percent of both agribusiness and the farm operator respondents agreed or strongly agreed with this proposed policy change. Thus, a majority in both groups supported a new procedure to set loan rate levels in reference to market prices.

Also of major concern to many is soil erosion. Cross-compliance has been suggested, that is, requiring farmers to follow recommended soil conservation measures in order to qualify for price and income supports. Strong support was evident for this proposal as 70 percent of the agribusiness operators and 68 percent of the farm operators agreed or strongly agreed with this proposal. If enacted, cross-compliance would represent a return to the principle established in the 1930s that farmers should conserve resources for the public good in return for public help.

Respondents were also asked how soil conservation funds should be distributed. A majority of the agribusiness (55 percent) and farm operator (53 percent) respondents favored distributing a greater share of these funds to states with the most severe erosion problems. Thus, both of these segments of agriculture in Illinois and Ohio appear to hold similar and highly supportive views of public policy toward soil conservation.

Another policy issue is distribution of farm program benefits among different sizes of farms. Past program benefits have been heavily skewed toward operators of large farms (for example, see references 4 and 5). This result has been questioned since large farms, especially those with \$200,000

or more in sales, earn substantially more income from farming than the national average family income (6, p. 43, and 10 p. 454).

One suggested policy which addresses concern over the distribution of farm program benefits is that of targeting price and income supports to farms with annual sales under \$40,000. Among farm operators support was heavily influenced by size of farm operation, a relationship that is statistically significant at the 99 percent level of confidence (Table 3). Operators of the smallest farms expressed a 75 percent preference rate for this targeting while only 8 percent of the largest farm operators supported such a program. Operators of medium-sized farms were about equally split on this issue.

The opinion of agribusiness operators more nearly matched those of medium-to-large than small-to-medium farm operators. This similarity probably reflects the fact that larger farm operations account for most farm production expenditures (6, p. 87). Thus, reduction in their program benefits relative to smaller farms could be perceived as generating a reduction in total farm production expenditures, hence, a reduction in the income of agribusinesses.

In summary, support for redirecting farm program benefits toward small and medium size farms appears to be strongly related to economic self-interest. Thus, sector-wide support for such a reorientation of farm program benefits was not evident among survey respondents.

#### Other Farm Policy Issues

Agricultural exports emerged as an important policy issue in the early 1980s. The survey, therefore, contained questions on various trade policy options. While the opinions of Illinois and Ohio agribusiness and farm operators were not identical for each policy, general agreement was evident and the rankings of various options were nearly identical. The proportion of

Table 3. Opinions of Agribusiness Operators and Farm Operators by Farm Sales Concerning Whether Price and Income Supports Should be Targeted to Farmers With Annual Farm Sales of Under \$40,000, Illinois and Ohio, Spring 1984.

Opinion	Agribusiness Operators	Farm Operators by Farm Sales			
		All	Over \$200,000	\$40,000-199,999	Under \$40,000
percent <sup>a</sup>					
Strongly agree	9	26	2	18	42
Agree	20	27	7	26	33
Not Sure	14	12	12	16	7
Disagree	36	24	52	28	12
Strongly disagree	18	10	28	12	3
No response	3	1	2	- <sup>b</sup>	2
Total <sup>c</sup>	100	100	100	100	100

<sup>a/</sup> Percentages are based on the following number of responses per category: agribusiness: 352, farms over \$200,000: 89, farms \$40,000-\$199,999: 452, farms under \$40,000: 362.

<sup>b/</sup> Less than 0.5 percent.

<sup>c/</sup> Total may not add to 100 due to rounding.

SOURCE: Original Survey Data.

agribusiness and farm operators who supported the following policies were significantly greater than 50 percent at the 99 percent level of confidence: (1) strengthen the General Agreement on Tariffs and Trade, (2) encourage lower trade barriers by major importers, (3) expand farmer-financed market development programs, and (4) promote bilateral trade agreements. On the other hand, significantly fewer than 50 percent of both the agribusiness and farm operator respondents supported: (1) lowering U.S. price supports to encourage exports, (2) forming a cartel, and (3) setting up a two-tier price plan with price support only on domestically-consumed farm products. Unsurprising, even

though a minority, a substantially greater proportion of agribusiness respondents favored the lowering of price supports to promote exports (41 percent vs. 24 percent).

One factor that will influence future trends in farm exports is the federal budget deficit and its impact on interest rates and the value of the dollar. Over 80 percent of both the agribusiness and farm operator respondents were concerned about the deficit and believed it should be reduced in order to lower interest rates and reduce the debt burden on future generations. In addition, more than 65 percent of both groups agreed or strongly agreed that the deficit should be reduced even if it meant a substantial cut in all government programs including farm programs. However, only about one-third of Illinois and Ohio agribusiness and farm operators supported reducing the deficit by freezing government expenditures and raising taxes. The deficit is thus a major concern, but neither group wants it solved by increasing taxes.

A program which has encouraged domestic food consumption is the food stamp program. Nonetheless, this program has seldom enjoyed much support in the agricultural sector. Lack of support was again found in this survey as 56 percent of the agribusiness operators and 53 percent of the farm operator respondents wanted the program reduced or eliminated.

Current fiscal stress in agriculture has brought about repeated calls by many for a moratorium on farm foreclosures. Others have argued that such a policy would only reduce the loanable funds available to farm operators since lenders would move their funds to less restricted sectors. One particular institution caught in this debate is Farmers Home Administration (FmHA). The survey, therefore, included a question concerning what FmHA's policy should be

toward its present borrowers. Only 16 percent of agribusiness operators and 22 percent of farm operator respondents supported an FmHA moratorium for either all distressed borrowers or young "deserving" farmers.

### Summary and Conclusions

On most policy issues agribusiness and farm operator respondents were in general agreement. This should not be surprising since farm input and output marketing firms derive their business from farmers and both groups generally live in the same cultural and social environment: rural areas and small towns.

Illinois and Ohio agribusiness operators were significantly less supportive than Illinois and Ohio farm operators of production control programs, especially the payment-in-kind program. The agribusiness operators were notably more supportive of a policy that would lower price supports in order to encourage export sales. Overall, their responses indicate that as a group they are more favorable toward a greater reduction in government involvement in farm policy than are farm operators, although not by a great margin on most issues.

In conclusion, conflict between the agribusiness and farm sectors in Illinois and Ohio appears to be nearly insignificant as a barrier to farm policy formulation. But, internal disagreement over the future direction of farm policy is evident within both sectors. Thus, it appears that discord among agribusiness operators, as among farm operators, is greater than conflict between the two groups. These internal conflicts appear unlikely to be resolved by the 1985 farm bill. Therefore, the farm policy debate is likely to continue until more general accord is reached within each group.

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