

POLICY INITIATIVES TO FACILITATE ADJUSTMENT

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Many farmers have been forced to discontinue operation because of recent economic conditions, and more farmers and their families will probably be displaced during the next three to five years. Product market prices, agricultural price and income policy, and national economic policy are not likely to greatly reduce the need for adjustment by farmers and their families. For many there are or will be serious personal costs associated with displacement. The transition to employment in the nonfarm economy is neither easy nor automatic.

Situation

The loss of farm population is not a new phenomenon in America. Displacements from farming have been occurring since World War II. Today, however, the reasons for displacement of farm families, and the character and economic positions of those displaced, are different from the post World War II farm displacements. After World War II, factors such as mechanization; reduction of profit margins leading to increased output per farm to maintain net farm income; the attraction of superior earning opportunities in urban areas; as well as the near abandonment of the southern tenant system were at the root of displacement. Today's displacement is caused largely by the farm financial crisis; too much debt relative to cash flow.

In the current loss of farm population, people younger than the average of the population are being displaced. They appear to be from the middle and upper-middle sector of commercial farming. There are no significant differences in their overall educational levels and those of the general population. They have entrepreneurial experience and occupationally useful skills. The Midwestern and northern Great Plains states have had the sharpest and most recent drops in farm values and farm debt problems. Many of these areas are very highly dependent on farming and there are not enough opportunities for farmers or young adults to find work locally. Also, there is no rural employment growth occurring in manufacturing nationally. Trade and service businesses now comprise the most

buoyant part of the rural economy on a national basis, but the economic future of these activities in agriculturally-dependent communities is closely linked to the declining fortunes of the farm economy.

Another way the current situation differs from the post World War II era is the public perception of the problem. The very large displacement of farmers after World War II did not arouse major public attention or result in public policy intervention. The adjustment that took place during this period was viewed as having increased the well-being of the individuals affected. They were seen as being pulled *from* the farm rather than pushed *off* the farm. Today's stories of farm families having to make adjustment tug at the heartstrings of much of the country. The adjustments brought about in the current situation have been intensely reported by newspapers, magazines and television. In some ways, the public interest approaches that of the adjustment caused by the depression and dustbowl of the 1930s.

Today, many of the farm families adjusting out of farming attempt to remain in their home communities for both emotional and financial reasons. The majority of employed farm women work in nonfarm jobs. Their income supplements family income and makes a decision to leave more difficult since such a move would require both spouses to find new jobs. As a result, many ex-farmers may be willing to accept local work that is below their ability and that pays below their former income level.

Ekstrom and Leistritz report research on occupational and relocation preferences of North Dakota farmers. About one-fourth of the farm operators surveyed indicated that if they had to quit farming they would prefer to remain in agriculturally-related jobs. Another 20 percent desired construction jobs and about 18 percent would seek manufacturing jobs. It is interesting that about 14 percent would simply retire.

The relocation preferences of North Dakota farmers are overwhelmingly—more than 80 percent—in favor of not having to move out of state. Ekstrom and Leistritz report this preference is not too far from the 77 percent of Iowa farmers who quit farming for financial reasons and did, in fact, manage to remain in the same community. Another 10 percent remained in the state and 13 percent left the state within one year of quitting. When North Dakota farmers were asked for the reasons behind their locational preferences, only 13 percent made their choice primarily because jobs were available. The authors conclude, "It appears that although North Dakotans may like the idea of moving to Arizona for the climate, many dislocated farmers may actually remain in the neighboring states because of job availability, nearness to friends and family, and climate."

Policy Issues

There appear to be five broad policy issues to consider in dealing with the current situation. Details of these issues overlap, and many of the existing programs or those to be developed will deal with more than one issue.

- *How to assist individual farmers and their families during their departure from farming?* There is a need to provide counseling and advice for the farmers and their families as they disengage from farming. Decisions made in a time of financial and personal stress, when the confidence and self-image of the farmers and their families are at a low ebb, are complicated and may not be wisely made.
- *How to increase area economic development?* A large proportion of farmers would like to find employment in their own or a nearby community. The development of new employment opportunities and increased economic activity in rural areas could significantly ease the personal and economic cost of adjustment compared to migrating to another state or area.
- *How to facilitate career reorientation?* Enhancement of occupational and labor market skills of displaced farmers and their families is a significant need. Whether in the same community or a new community, the matching of jobs and farmers is important. Most farmers lack skills and experience in job search and interviewing techniques, creating a need for career counseling as well as training and skills development for new jobs.
- *How to provide income support for displaced farmers during the adjustment period?* The farmers displaced by economic conditions generally have little or no income and very little savings to see them through the adjustment process. Many are nearing retirement and finding employment would be difficult for them. Training and schooling often involve expenses as well as foregone income.
- *What role for government (federal, state and local) and private organizations?* The question of who should do what to help displaced farmers is a significant one. Private organizations such as churches and community groups can and are providing some effective programs. The mix of federal, state and local government activities should vary in response to structural differences in the local economy. Some programs may be authorized and financed at the federal level but operated at the state or local level.

Legislation and Programs in Place

Legislation and/or programs are in place for each of the broad policy issues outlined above (U.S. Department of Agriculture). The size of these programs and their funding may be inadequate for the current need. This section reviews some of the legislation and programs.

Assistance for Farm Families. Many of the state extension services have ongoing programs in financial management, counseling and stress management. For example, a New York Cooperative Extension Service Task Force report recommends new extension resources to meet the needs of "at risk" farm families. The report suggests a variety of delivery methods; points out the need for in-service training for field staff; recommends the implementation of a public media "awareness campaign"; suggests appropriate program materials be purchased from other sources or developed by Cornell faculty if not available; and recommends that the farm family's social as well as economic concerns be integral components of the program. Farm financial management education programs are underway in many states. State extension services as well as state and local groups are providing "hot line" services, and support groups for families facing adjustment have been developed in many communities.

It is not known how adequately these programs serve the needs of those farm families being displaced from farming. The continuation of these programs, for a number of years in some states, is evidence that there are still unmet needs, especially in the area of mental health.

Area Economic Development. Area economic development sometimes may be a more efficient or politically feasible way to assist displaced farmers than direct help to individuals. Displaced farmers are often located in communities that do not contain many employment opportunities outside of farming and its linked industries.

The federal government has significant experience with area economic development assistance. The Area Development Administration and the Economic Development Administration of the United States Department of Commerce have been involved in attempting to stimulate economic activity in selected areas, as have regional bodies such as the Appalachian Regional Commission. The United States Department of Agriculture (USDA) has attempted to foster economic development through Farmer Home Administration loan programs to improve rural housing, construct community infrastructure and encourage rural industrialization. Many of the federal development programs have been designed to enhance the access to capital markets by local communities and private enterprises. These programs have provided direct loans and/or loan guarantees, sometimes at subsidized interest rates. It is difficult to evaluate the effectiveness of the recent area development programs. Federal budget reductions in the

1980s have eliminated or reduced the scale of many of these undertakings. It is probably safe to say that these programs do not have a great deal of current political support. For example, the efforts in area economic development by the USDA are currently at a low level, but there are signs of increased support under the rubric of rural revitalization.

Many states have had and continue to have programs in the area of economic development, but their support also has declined. Some state governments are beginning to combine job creation and job retraining by offering customized services to new or expanding enterprises within their states. South Carolina and Alabama have programs in this area and the states that have successfully obtained new auto plants are offering job training.

Economic development is an important element of a comprehensive policy to assist the adjustment of displaced farmers and their families. Clearly a policy alternative is for the federal government and states to give increased support to these efforts based on the learning from past programs.

Facilitating Career Reorientation. The federal government has had several programs to match workers displaced in one industry with emerging opportunities elsewhere. The latest is the Job Training Partnership Act (JTPA). It was enacted in 1982 and replaced the Comprehensive Employment and Training Act (CETA) of 1973. The major objectives of JTPA are the same as CETA, to prepare youth and unskilled workers for the labor force and to provide job training for the economically disadvantaged. JTPA is funded by block grants provided to the states by the federal government. JTPA is different from CETA in that local private industries participate in administering its program. Also, funding under JTPA is much lower than CETA. In fiscal 1984 funding for JTPA was only \$4 billion compared to \$10 billion federal funding during CETA's peak year. JTPA is almost exclusively a training program and the public service employment option in CETA was eliminated.

Farmers and their families who are forced to adjust out of agriculture are generally eligible for JTPA assistance under Title 3—Employment and Training Assistance for Dislocated Workers. Program activities authorized under Title 3 include job search assistance; job development; training and job skills for which demand exceeds supply; supportive services including community assistance and financial and personal counseling; pre-layoff assistance; relocation assistance; and programs conducted in cooperation with employers or labor organization.

The Cooperative Extension Service of the College of Agriculture of the University of Kentucky recently announced a JTPA funded pilot program, Career Assistance for Farmers. The program will be con-

ducted in conjunction with the Blue Grass Area Development District and the Department of Employment Services. The target audience for the project is 1,279 farmers in 16 central Kentucky counties. The pilot project is scheduled to last for one year starting July 1, 1986, and the total budget of the project is \$118,966.

More than twenty states have modified their definition of dislocated workers under JTPA to include displaced farmers. Kansas, Iowa, Minnesota and Nebraska have established special displaced farmer programs within the last year and each received more than \$1 million for their programs from the Secretary of Labor's discretionary fund.

Title 2A—Training Services for the Disadvantaged—Adult and Youth Programs of JTPA, could help bankrupt and low income farmers. To be eligible for Title 2A the individual must be economically disadvantaged or encounter barriers to employment. However, farmers who have lost their farms may not be eligible for 2A assistance because they have sold a crop in the last year. These farmers would still be eligible for Title 3 assistance.

The programs that have been set up in Kansas, Iowa, Nebraska and Minnesota expect a big increase in the number of farmers and their families entering the program in 1985–86 with estimates ranging from 600 to 1,000 participants each. Recent testimony by the General Accounting Office (U.S. Department of Agriculture) attests to JTPA's effectiveness in placing participants in jobs. This testimony also indicated that proposed budget cuts for the program will result in decreases in formula funds available in 23 states.

Section 1440 of the Food Security Act directs the Secretary of Agriculture to provide special grants to education and counseling programs that develop income alternatives for farmers who have been adversely affected by the current farm and rural economic crisis or displaced from farming. These programs will consist of education and counseling services that assess human and nonhuman resources and income alternatives; identify opportunities available for farmers in their county and state; implement financial planning and management strategies; and match such farmers with specific opportunities, such as new businesses, other off-farm jobs, job search programs and retraining skills. The grants must be issued between December 23, 1986, and December 23, 1988. The House Agriculture Appropriation Bill for fiscal 1987 recommends \$1.5 million for three grants in the amount of \$500,000 each for establishing pilot programs in Nebraska, Iowa and Missouri, and calls for USDA to prepare a full and complete report on the success of the pilot programs and other state and local programs to help displaced farmers.

A number of states have yet to consider farmers as dislocated workers. The level of funding of JTPA may need to be increased to meet the needs of more displaced farmers.

Income Transfer Programs. Displaced farmers receive limited assistance from the Federal Income Transfer System. The two general categories of programs most likely to be available are retirement related programs and income maintenance programs. Usually, eligibility must be certified by local or federal officials. Social Security is the major general retirement program and farmers have been covered since 1954. Federal income maintenance programs include unemployment insurance and public assistance. Unemployment insurance benefits do not cover self-employed persons. Major public assistance programs include Supplemental Social Security Income, Aid to Families with Dependent Children, low income housing and food stamps. Income and asset limits are included as part of the eligibility criteria for all these programs.

Displaced farmers, particularly those in the midst of bankruptcy proceedings who legally own but don't control their farm assets or have sold crops earlier in the year, have difficulty meeting criteria for these programs. Even so, the use of food stamps by farm families has been increasing in the Middle West. State and local general assistance programs are targeted to low income persons not eligible to participate in other public assistance programs. There is some evidence of use of these programs by displaced farmers, but at present levels of funding they appear to provide limited assistance.

What Role? The mix of programs provided by federal, state and local government, as well as private organizations, to assist displaced farmers and their families has been shifting toward state and local levels and private organizations. Changes in eligibility requirements to make the programs more useful to displaced farmers have been mainly made at the state, not the federal, level.

The National Governors' Association Working Group on Rural Economic Adjustment recently pointed out that during the last two years the states have taken two approaches to the crisis in rural America. The first approach is in the area of crisis management. Eleven states to date have appropriated funds to provide transition assistance for farmers and their families. These services include hotlines, legal and financial counseling services, mental health assistance, and comprehensive packages to help dislocated farm families with their retraining and social service needs. These services are being provided to all rural citizens severely affected by the farm situation such as bankers, agricultural machinery and food processing workers, and small town business people as well as farmers. Each of these programs packages and delivers services in a unified manner to the farm family. Examples of these programs include the Kansas Farmer Assistance Counseling Training Service (FACTS), the Nebraska "Farmers in Transition Program" and the South Dakota Rural Renaissance Program. Fifteen states set up 22 emergency farm finance programs in 1985 that committed more than \$500 million in state funds to

almost 20,000 loans. Additional states are planning to set up similar programs in 1986.

Secondly, the states are now trying to anticipate economic trends and redirect their long-term development efforts to expand economic opportunities in rural areas. These include efforts to increase off-farm income, help farmers exploit new markets, encourage entrepreneurial training and development, and add value to their products. The states are also looking at the possibility of adjusting urban economic development programs to meet rural and nonmetropolitan needs. These may include rural enterprise zones, venture capital targeted to rural areas and programs to maintain the infrastructure of rural America.

Local government and private organizations have greatly increased support groups and counseling services. In June, the *Progressive Farmer* reported that Bethel College in North Newton, Kansas, is offering farmers in trouble an unusual opportunity. Any farmer who has been forced to leave the farm for financial reasons can apply for a full year of free college-credit courses. Other colleges have similar programs.

Some Alternative Policies and Their Consequences

This section is intended to suggest a set of alternative policies that might serve the needs of displaced farmers. These alternatives and comments on their consequences are the beginning of an analysis required for a significant public policy education effort.

- *Increase the level of support of farm price and income programs so that adjustment is not necessary.* This alternative would be supported by many farmers in danger of forced adjustment. Rulon Pope suggests that budget costs for adjustment of farmers may be lower than the cost of using farm programs to keep them in farming. Agricultural producers have accumulated a great deal of human capital which leads to relatively low adjustment costs for farmers compared to displaced persons in other industries. Also, past experience with high price supports suggests the increased income flows would be used to bid up the price of land rather than enhance farm family income. Current and growing concern about the cost of farm programs and their distribution effects would seem to limit the possibility of such an alternative being seriously considered. However, it is an alternative.
- *Develop new federal programs aimed at assisting displaced farmers and their families.* The numerous federal programs that assist displaced farm families were not designed for that purpose, but for more general assistance. The implementation of this alternative would require the careful design of such a pro-

- gram and the working out of the interrelations with existing programs. The time required to do the analysis, pass new legislation and write the regulations is probably two or three years.
- *Increase the level of funding for existing programs and adjust the regulations to make more displaced farmers eligible for the programs.* Funding of Section 1440 of the Food Security Act, increased funding for JTPA and other federally-supported welfare assistance programs, and increasing federal activities in rural revitalization are possible. In order to implement this alternative, the public concern for displaced farmers would have to overcome the concern about deficits at the federal, local and state levels. However, these programs are in place and the implementation costs would be less likely than the development of new specifically directed programs. Careful attention would need to be given to revision of the regulations of the existing programs in order to insure more eligibility by displaced farmers, especially those in bankruptcy or "work-out" procedures.
 - *State funded educational assistance and transitional loan programs.* A number of states are considering programs to allow financially strapped farm families to make an orderly exit from farming to other occupations. Financial assistance to farmers who want to attend educational institutions to obtain marketable job skills and/or loans to supplement farmers' earnings while they make the transition to other occupations could be implemented at the state level. Bruce Jones outlines two such programs. These types of programs were recommended to the Wisconsin Governors' Commission on Agriculture in June, 1985. At an interest rate of 10 percent, the present value of government tuition costs per farmer were estimated to be \$3,320 and the present value of government loan payments would be \$7,056. The cost per farmer of these programs is relatively modest compared to other programs, especially price and income support programs.
 - *A Farm GI Bill.* Similar to the proposal made by Jones, but at the federal level, a "Farm GI Bill" was proposed by R. A. Chamberlin in a recent *Wall Street Journal*. It uses the various GI Bill programs of the past as models. Chamberlin argues that the cost of such a training program would be far less than the ongoing commodity price support programs. Much of the author's analysis seems based on a goal of reducing traditional farm programs rather than focusing on the problems of displaced farmers and their families.
 - *Increased support for private sector programs to assist displaced farmers and their families.* It would be possible to develop new programs or adjust present programs to provide incentive for

community organizations, privately supported colleges, etc., to provide services to displaced farmers. The development and implication of such programs would not require a large bureaucracy. They would provide support directed to local situations and allow for a wide range of different programs, limited only by the imagination of the organizations applying for grants.

- *Do nothing.* One alternative is simply to say that present programs are adequate, the adjustment process is ongoing and will end sometime and no new programs or increased funding are required. One consequence of this alternative is no additional budget cost in the short run. Another consequence is that many displaced farmers and their families will not be served.
- *Some combination of alternatives.* This alternative always exists. For example, it would be possible to modestly increase funding of existing programs, encourage states to develop new programs and provide limited incentive for private sector groups to assist displaced farmers and their families.

The policy decisions of what will be done to assist displaced farmers and rural communities depend heavily upon society's knowledge of the problem, alternatives and consequences as well as the political assessment of the importance of the problem to voters. Knowledge is needed by citizens on national and state policies to help farm people adjust; on local programs and activities to help farm people adjust; on policy options to facilitate career reorientation; on policies to assist households to cope; on policies to assist agribusiness firms to adjust; and on policies to develop economic alternatives for farm people and rural communities. Public policy education can play a significant role in what this nation decides to do about the problems of displaced farmers, their families and rural communities.

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WORKSHOPS

***POLICY CHOICES FOR DEALING
WITH AGRICULTURAL
OVERPRODUCTION
AND FINANCIAL STRESS***

