

North Dakota Farmers' Views on Financial Assistance Policies

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Discussions of agricultural policy have traditionally centered on price support and supply control features of various commodity programs (Guither et al., 1984). In recent years, however, falling commodity prices, excessive debt loads, high interest rates, and declining land values have combined to focus attention on another type of agricultural policy—assisting financially stressed producers. Many farm and ranch operators are experiencing the most severe financial crisis since the 1930s, and policymakers are becoming increasingly aware that traditional commodity programs are an inadequate response to the problems facing many producers (Extension Service, 1986). As a result, attention is being directed toward policies specifically designed to assist farm operators whose debt loads have become unmanageable.

Numerous programs to assist financially stressed operators have been proposed at both national and state levels. At the federal level, Congress recently enacted the Farm Credit Amendments Act of 1985, which established mechanisms by which federal aid could be provided to the Farm Credit System (Todd, 1985). Also, since late in 1984, the Farmers Home Administration has been authorized to offer deferrals of principal payments and interest rate subsidies to qualifying borrowers. In North Dakota, a program to provide interest rate subsidies for operating loans was enacted by the 1985 legislative session, and in March 1986 the governor announced a plan through which the state and the Federal Land Bank would cooperate in refinancing farm mortgage debt (Maixner, 1986). Many other policy options have been discussed, and the debate concerning the most appropriate responses to current farm financial problems continues both in Congress and in state capitols around the country.

This article examines attitudes of North Dakota farm and ranch operators toward various forms of financial assistance which could be implemented by federal and/or state governments. It also examines the extent to which various personal, farm, and financial characteristics influence operators' attitudes toward financial assistance programs. Information concerning farm operators' views was obtained from telephone interviews conducted in March 1986. Operators contacted were members of a panel of North Dakota farmers and ranchers established through a survey conducted in 1985 (Leholm et al., 1985). Initial screening questions were incorporated in the 1985 survey to ensure that all respondents were less than 65 years old, were

operating a farm, considered farming to be their primary occupation, and sold at least \$2,500 of farm products in 1984.

For the 1986 survey, attempts were made to contact all 933 members of the original panel. Of these, 759 had responded, 99 had refused to participate, 18 had ceased to operate a farm or ranch, four were deceased, and 53 had not yet been contacted at the time of this initial analysis. The 759 farmers who were still farming and who had completed usable questionnaires constitute the data base for this analysis.

Characteristics of Sample Farmers

Selected characteristics of respondents to the 1986 survey were compared with data from the 1985 survey and North Dakota data from the 1982 Census of Agriculture to determine representativeness. The distribution of farms by state planning region (see Figure 1) compares quite closely with both the 1985 survey and the 1982 census count for farms whose operators reported farming as their principal occupation (Table 1). The age distributions are quite similar between the two surveys and the census except that the surveys included slightly smaller percentages of operators under age 25. A probable explanation for this difference is that difficult economic conditions have discouraged young people from entering farming in the last few years.

Comparison of the distributions of acres operated reveals that the two survey distributions are similar but that both surveys included a smaller percentage of small farms (less

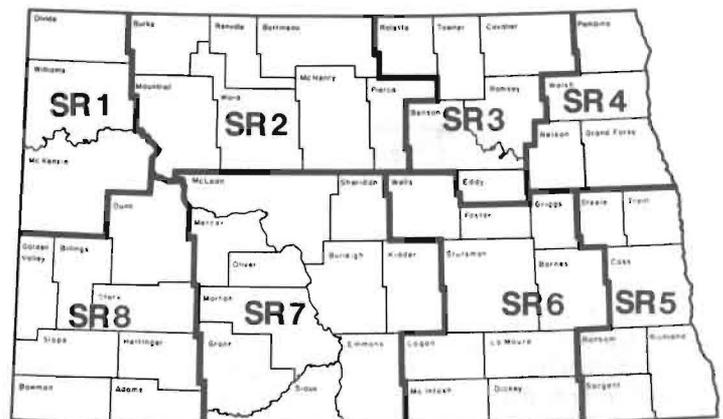


Figure 1. The Eight State Planning Regions in North Dakota.

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Table 1. Distributions of North Dakota Farms by State Planning Region, Acres Operated, and Age of Operator from 1982 Census of Agriculture, 1985 Farm Operator Survey, and 1986 Farm Operator Survey.

	1982 Census	1985 Survey	1986 Survey
	-----percent-----		
Region: ^a			
1	6.2	4.9	5.0
2	14.9	15.1	14.9
3	11.0	10.9	10.4
4	9.7	9.8	9.0
5	13.4	13.2	13.4
6	17.8	17.9	17.9
7	17.4	17.9	18.3
8	9.7	10.3	11.1
Age: ^a			
Less than 25	6.2	2.8	2.6
25 to 34	20.1	20.5	19.2
35 to 44	20.2	23.4	24.8
45 to 54	24.9	25.7	24.1
55 to 64 ^b	28.7	27.6	29.2
Acres operated: ^c			
Less than 180	7.8	1.3	2.0
180 to 499	14.6	8.3	8.8
500 to 999	28.9	25.8	25.6
1,000 to 1,999	33.3	39.4	41.3
2,000 or more	15.5	25.2	21.9

^aIncludes only farms whose operator reported farming as principal occupation. Source: 1982 Census of Agriculture, Table 46.

^bFor 1986 survey, this includes 10 operators (1.3 percent) who were 65 years old at the time of the survey (were 64 in 1985).

^cIncludes only farms whose operators reported farming as principal occupation and whose age was less than 65.

than 500 acres operated) than are represented in the census. A likely explanation is that many of these smaller units are operated by individuals (excluded from the survey) over 65 years of age or who do not consider farming to be their principal occupation.

Salient financial characteristics of survey respondents are summarized in Table 2. One of the better indicators of the financial health of a farm business is the debt-to-asset ratio. The larger this ratio, the greater the probability that the farmer will experience cash flow difficulties during periods of low returns and high interest rates such as have been experienced during the 1980s. At current prices, input costs, and asset values, most commercial farms begin to experience difficulty meeting principal repayment commitments at debt-to-asset ratios of about 40 percent (Johnson, Baum, and Prescott, 1985; Leistritz et al., 1986). A more critical point is reached when the debt-to-asset ratio exceeds 70 percent. Above this point, most farms have difficulty meeting even their interest payments and other current expenses.

Examination of Table 2 reveals that 23.5 percent of North Dakota farm operators had debt-to-asset ratios between 41 and 70 percent while 16.9 percent had ratios over 70 percent. In fact, 5.2 percent had ratios exceeding 100 percent, indicating that their total debts exceeded the value of their assets. About 40 percent of respondents have debt-to-asset

Table 2. Selected Financial Characteristics of North Dakota Farm Operators.

Item	Percent of Farmers
Debt-to-asset ratio (January 1, 1986):	
No debt ^a	18.2
0.1 to 40 percent	41.4
41 to 70 percent	23.5
71 to 100 percent	11.7
More than 100 percent	5.2
Status with respect to debt payments (March 1986):	
No debt ^a	17.6
Current	64.2
Not current	18.1
Net cash farm income (1985):	
Negative	19.1
Zero	4.7
\$1 to \$4,999	10.5
\$5,000 to \$9,999	13.3
\$10,000 to \$19,999	24.9
\$20,000 and over	27.9

^aBecause of minor differences in the number responding to different questions, small differences in percentages will be noted.

ratios in the ranges generally associated with considerable financial stress.

Another indication of financial stress is inability of the operator to meet scheduled payments of principal and interest on loans. As indicated in Table 2, 18.1 percent of the respondents (or 22 percent of those with debt) reported that they were not current on their loan payments.

The operator's cash return after current expenses and depreciation is reflected by net cash farm income. About 24 percent of the respondents reported that their net cash farm income in 1985 was zero or negative. On the other hand, 27.5 percent reported net cash farm income exceeding \$20,000.

A measure of the ability of farm families to meet immediate financial obligations is provided by subtracting an allowance for family living expenses from total family income. The average total family income reported by the survey respondents for 1985 was \$24,683, of which net cash farm income made up \$15,958. The family living expense allowance was intended to reflect minimum levels for such expenses and was based on information obtained from the Farm Financial Analyst Program of the North Dakota Cooperative Extension Service. These minimum levels of family living expenses were \$6,000 for a single individual, \$8,000 for a two-person household, and \$12,000 for a household of three or more. (These values are also quite similar to the poverty income thresholds for families of these respective sizes.)

The results of this analysis are shown in Table 3. About 36 percent of the farm operators surveyed did not have enough income in 1985 to cover current expenses and a capital replacement (depreciation) allowance. On the other hand, 26 percent of the respondents had \$20,000 or more remaining after covering these costs.

Table 3. Total Family Income Less Family Living Expenses for North Dakota Farmers, 1985.

Item	Percent of Farmers
Total family income ^a less family living expenses (1985):	
Negative or zero	36.4
\$1 to \$4,999	14.5
\$5,000 to \$19,999	23.0
\$20,000 and up	26.1

^aTotal family income is the sum of net cash farm income and nonfarm income. Major sources of nonfarm income were earnings from off-farm employment, income from savings and investments, and mineral lease payments.

Attitudes Toward Financial Assistance

In the 1985 survey, respondents were asked whether they felt farmers in financial trouble should receive help from the federal and/or state government. A **yes** or **no** response was requested. In the 1986 survey, farmers were asked to respond to the same question with **strongly agree**, **agree**, **neither agree nor disagree**, **disagree**, or **strongly disagree**.

The respondents' attitudes toward financial assistance were relatively consistent between the two surveys. In 1985, 54 percent of the respondents indicated that they favored assistance from the federal government. In 1986, 39 percent agreed (Table 4). Similarly, about 46 percent of the farmers did not favor federal aid in 1985; about 35 percent disagreed in 1986.

A similar pattern was evident with respect to aid from state government, except that a somewhat smaller percentage of farmers were in favor of state assistance in either year. In 1986, about 31 percent of the respondents favored state aid to financially stressed farmers.

Farmers who favored aid from one level of government generally tended to also favor aid from the other level (Table 5). Of the farmers who agreed that federal assistance was desirable, about two-thirds favored state aid. Conversely, 84 percent of the farmers who were in favor of state aid agreed that federal assistance would be desirable. Only 22 percent of those who favored federal aid disagreed with the concept of state assistance. Many of these farmers commented that the state's resources were not adequate to undertake such an effort.

Some financial and personal characteristics of producers who favored federal and state aid are summarized in Table 6. A definite relationship between a farmer's debt-to-asset ratio and his attitude toward assistance from either source is apparent. Less than one-fourth of the operators in the no debt category were in favor of either form of assistance while more than half of those with debt ratios exceeding 70 percent agreed with aid from each source. A very similar pattern can be noted with respect to the operator's status on debt payments. More than half of the operators who were not current were in favor of state aid, and nearly two-thirds agreed with federal assistance. It is also interesting to note, however, that even in the highest debt categories a substantial percentage of operators do not favor aid from either federal or state sources.

Table 4. Farmers' Attitudes Toward Federal and State Financial Assistance, 1985 and 1986 (in Percent).

Source of Aid	1985 Response		1986 Response		
	Yes	No	Agree	Neutral	Disagree
Federal	54.4	45.6	39.3	26.1	34.6
State	45.6	54.4	31.3	24.7	44.1

Table 5. Farmers' Attitudes Toward Financial Assistance from Federal Government and State Government, 1986.

Federal Government Assistance	State Government Assistance			
	Agree	Neutral	Disagree	Total
	-----percent-----			
Agree	66.8	11.2	22.0	268
Neutral	8.9	71.4	19.8	192
Disagree	6.4	4.4	89.2	251
Total	29.8	25.0	45.1	711

Table 6. Farmers' Attitudes Concerning Federal and State Financial Assistance by Selected Financial and Personal Characteristics, 1986.

Item	Percent of Farmers in Group Who Favor: ^a	
	Federal Aid	State Aid
Debt-to-asset ratio:		
No debt	24.2	21.1
0.1 to 40 percent	30.1	21.2
41 to 70 percent	46.0	35.8
71 percent and greater	59.5	51.6
Status with respect to payments on debt:		
No debt	24.2	21.1
Current on payments	34.4	25.7
Not current on payments	62.3	53.4
Net cash farm income:		
Negative or zero	51.6	36.4
\$1 to \$9,999	46.1	36.4
\$10,000 to \$19,999	35.4	28.3
\$20,000 and greater	29.1	23.5
Total family income less family living expenses:		
Negative or zero	44.2	36.8
\$1 to \$19,999	38.3	28.4
\$20,000 or greater	32.2	23.2

^aIncludes respondents who "strongly agree" or "agree" that the federal (state) government should assist farmers who are in financial trouble.

Two other financial variables reinforce this association. A relationship between net cash farm income and attitude toward aid is also apparent from Table 6, particularly with respect to federal assistance. The variable, total family income less family living expenses, also appears to be associated with these attitudes; operators whose family income was inadequate to cover living expenses were more likely to favor aid than operators with higher income levels. This relationship, however, is not as pronounced as for the other financial variables.

Some regional variations in attitudes were evident, but a clear pattern did not emerge. Generally, attitudes toward federal aid were somewhat more positive in the western regions than in the eastern part of the state, although Region 5 (the southern Red River Valley and adjacent areas) had the third largest rate of agreement. The percentage agreeing with federal aid ranged from 30.2 percent (Region 4) to 41 percent (Region 8). Less variation was evident with regard to state assistance; the percentage agreeing ranged from a high of 32.1 percent (Region 7) to a low of 27.8 percent (Region 1).

Little variation in attitudes toward either federal or state aid was found among operators of different age groups. Some association appeared to exist between education and farmers' attitudes toward state aid; the more highly educated operators were generally less favorable to state assistance. Little relationship appeared to exist between education and the attitude toward federal assistance.

Preferences for Specific Forms of Financial Assistance

Survey participants who were in agreement with the general concept of federal or state aid to farmers were also

asked whether they would be in favor of four specific forms of financial aid. The four types of assistance specified were

1. Federal (state) government's providing financial assistance to financially troubled ag creditors either directly or through loan guarantees.
2. Federal (state) government's subsidizing interest rates on operating loans.
3. Federal (state) government's participating with creditors and farmers in restructuring land debt.
4. Federal (state) government's providing low-interest loans or grants to financially stressed farm families for vocational training or college in preparation for a new occupation.

Although the range of financial aid measures that have been discussed at federal and state levels is extensive, it appears that these four alternatives are representative of most of the assistance plans that are receiving serious consideration (Brake, Boehlje, and Lee, 1986).

Farmers' overall ratings of the four forms of assistance are summarized in Table 7. It should be noted that **only** farmers who said that they would agree or strongly agree that government should aid farmers in financial trouble were asked whether or not they would be in favor of any of the four forms of aid. About 54 percent of the farmers would favor all four forms of aid from the federal government while 62 percent would be in favor of all four types of state help. The two most popular forms of aid are participation in restructuring land debt and provision of loans for retraining.

The relationship between farmers' debt-to-asset ratios and their preferences for the different options is summarized in Table 8. Considering the four types of federal government help, it appears that support for interest subsidies and land

Table 7. Support for Specific Forms of Federal and State Financial Assistance by North Dakota Farm Operators, 1986.

Form of Assistance	Percent of Respondents Who Would Favor ^a
Federal assistance to agricultural creditors	86.3
Federal subsidy of interest rates on operating loans	83.3
Federal participation in restructuring land debt	89.1
Federal provision of low-interest loans or grants for training for new occupations	90.4
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State assistance to agricultural creditors	84.3
State subsidy of interest rates on operating loans	86.6
State participation in restructuring land debt	92.5
State provision of low-interest loans or grants for training for new occupations	91.8

^aPercent of those respondents (1) who "strongly agree" or "agree" that the federal (state) government should assist farmers who are in financial trouble and (2) who would be in favor of the specified form of assistance.

debt restructuring is strongly influenced by the respondent's own debt position whereas assistance to creditors and aid for retraining are strongly supported regardless of debt position. The same general relationship appears to hold at the state level, although farmers with no debt were somewhat less willing to support aid to agricultural creditors if the source were the state (rather than the federal) government.

The relationship between net cash farm income and preferences for different options is summarized in Table 9. Producers whose net cash farm income was zero or negative in 1985 were inclined to strongly favor all four types of aid while a lower percentage of higher income farmers were in favor of assistance to creditors or interest subsidies. Support for federal participation in debt restructuring and aid for retraining was strong across all income classes. The patterns with respect to state assistance are not as clear, although producers with zero or negative net cash farm income generally tended to favor each of the forms of aid more than higher income operators.

Summary

Assistance to financially stressed farmers and agricultural creditors has become a major agricultural policy issue. North Dakota producers appear to have mixed feelings concerning the appropriateness of such aid. Between 30 and 40 percent of the operators surveyed supported state and federal aid (about one-fourth were neutral). Results of this survey revealed a strong relationship between an operator's financial status and his attitude toward financial assistance from the federal or state government. More than half of the operators with debt-to-asset ratios greater than 70 percent

or with delinquent loan payments favored assistance, but less than one-fourth of those with no debt supported such governmental aid. The two forms of assistance most strongly supported by those favoring governmental aid were land debt restructuring and retraining. With the exception of retraining loans or grants, all forms of assistance were more strongly supported by operators with higher debt ratios and lower net cash farm incomes.

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Table 8. Farmer Support for Specific Forms of Federal and State Financial Assistance, by Debt-to-Asset Ratio, 1986.

Form of Assistance	Debt-to-Asset Ratio			
	No Debt	0.1 to 40 Percent	41 to 70 Percent	71 Percent and Greater
-----percent-----				
Federal				
Assistance to agricultural creditors	86.4	88.5	87.0	84.4
Interest subsidy on operating loans	44.4	85.2	84.9	95.6
Participation in restructuring land debt	76.2	85.5	90.3	94.4
Loans or grants for retraining	88.9	91.5	87.3	91.4
State				
Assistance to agricultural creditors	77.3	81.8	82.5	91.2
Interest subsidy on operating loans	58.3	87.5	86.0	98.3
Participation in restructuring land debt	76.2	90.4	94.7	98.4
Loans or grants for retraining	92.6	91.2	89.5	95.0

NOTE: Percentages represented those respondents (1) who "strongly agree" or "agree" that the federal (state) government should assist farmers who are in financial trouble and (2) who would be in favor of the specified form of assistance.

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Table 9. Farmer Support for Specific Forms of Federal and State Financial Assistance, by Net Cash Farm Income, 1986.

Form of Assistance	Net Cash Farm Income			
	Negative or Zero	\$1 to \$9,999	\$10,000 to \$19,999	\$20,000 or More
	-----percent-----			
Federal				
Assistance to agricultural creditors	93.1	86.6	89.8	77.6
Interest subsidy on operating loans	92.1	79.1	86.5	75.0
Participation in restructuring land debt	91.8	89.6	88.0	87.5
Loans or grants for retraining	90.9	86.4	90.4	90.4
State				
Assistance to agricultural creditors	86.0	86.0	82.9	78.6
Interest subsidy on operating loans	88.2	90.4	92.9	81.0
Participation in restructuring land debt	94.2	96.1	92.5	90.0
Loans or grants for retraining	89.9	94.4	93.0	90.0

NOTE: Percentages represent those respondents (1) who "strongly agree" or "agree" that the federal (state) government should assist farmers who are in financial trouble and (2) who would be in favor of the specified form of assistance.