J. Norman Efferson Lectureship Series

Presented by

Ambassador Clayton Yeutter
April 9, 1999

made Possible by
the J. Norman Efferson Endowment in
Agricultural Economics and Agribusiness

Department of Agricultural Economics and Agribusiness

Louisiana State University and A&M College
Mark Emmert, Chancellor

LSU Agricultural Center
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The J. Norman Efferson Lectureship is made possible through the J. Norman Efferson Endowment in Agricultural Economics and Agribusiness. The lectureship, part of the major lectureship series of the university, is designed to bring to the campus eminent scholars in agricultural economics and related subject matter areas for the presentation of lectures and interaction with departmental faculty, graduate and undergraduate students, interested alumni, representatives of the business community, and the general campus population.

The lectureship is named in honor of Dr. J. Norman Efferson, a distinguished scholar and university administrator, who devoted his professional career to the agricultural industry of the State of Louisiana. As a faculty member in the Department of Agricultural Economics and Agribusiness, he developed a national and international reputation as a scholar in the area of farm business management. He continued his interest and involvement in research and teaching after his appointment as an administrator. In 1956, he was named head of LSU's agricultural programs in research, teaching, and extension. In this position he held various titles including dean of the College of Agriculture, vice chancellor for Agriculture, and finally chancellor of the LSU Center for Agricultural Sciences and Rural Development. The name of the center was later changed to the LSU Agricultural Center. Dr. Efferson played a key role in the establishment of the center that represented a solidification of the University's commitment to serve the state's agricultural industry through its research and extension programs. Dr. Efferson retired as chancellor in 1980, but continued to remain an active supporter of the LSU Agricultural Center until his death in 1989.

Dr. Efferson recognized that international agricultural development and markets, as well as domestic farm policy, would have an impact on the state's agricultural industry. Because of this, he became an active participant in various presidential commissions and national foundations. He served on USAID advisory boards on agricultural policy and international development. As a result, the various research, teaching, and extension programs he administered had a worldwide perspective that enhanced their service to the Louisiana agricultural industry. Through the J. Norman Efferson Endowment, friends of Dr. Efferson have helped to ensure that his goal of improving the agricultural industry in Louisiana and throughout the world, is realized. The J. Norman Efferson Lectureship makes it possible to bring nationally and internationally prominent professionals to campus for the purpose of extending and upgrading the academic programs of the Department of Agricultural Economics and Agribusiness. This, in turn, helps the department better serve the agricultural industry in the state and throughout the world.

HOGAN & HARTSON
L.L.P.

CLAYTON YEUTTER
OF COUNSEL
DIRECT DIAL (202) 637-5674

COLUMBIA SQUARE
555 THIRTEENTH STREET, NW
WASHINGTON, DC 20004-1109
TEL (202) 637-5600
FAX (202) 637-5910

BIOGRAPHY OF CLAYTON YEUTTER

Ambassador Clayton Yeutter is Of Counsel to Hogan & Hartson, one of the nation's largest law firms. He brings a unique perspective to this and his many other activities, for he has had the rare privilege of serving in cabinet and subcabinet posts under four U.S. Presidents.

Between 1985 and 1988, Ambassador Yeutter served as U.S. Trade Representative. While in this position, he maneuvered the 1988 Trade Bill through Congress, helped to launch the 100-nation Uruguay Round of GATT negotiations, and led the American team in negotiating the historic U.S.-Canada free trade agreement. He was involved in numerous other bilateral and multilateral trade negotiations, including some of the United States' most significant efforts with Japan, such as the original U.S.-Japan Semiconductor Arrangement. Ambassador Yeutter also helped to put in place provisions to protect American intellectual property, particularly in Asia and Latin America.

In 1989 President Bush named Ambassador Yeutter as Secretary of Agriculture, where he served as the Administration's point man in steering the 1990 Farm Bill through Congress. That legislation helped to move U.S. agriculture toward a more market-oriented policy structure, and laid the groundwork for a major expansion in U.S. agricultural exports.

In 1991 Secretary Yeutter was named Republican National Chairman. His efforts there, particularly on redistricting, helped lay the groundwork for the huge Republican wins in Congress and state legislators in 1994. In 1992 he returned to the Administration to coordinate domestic policy in the Cabinet level post of Counselor to the President.

From 1978-85 Ambassador Yeutter served as President and Chief Executive Officer of the Chicago Mercantile Exchange. Under his leadership, the "Merc" launched a host of futures and options products which have now made it the largest private sector financial institution in the world.

In the early 1970s, Ambassador Yeutter held three subcabinet positions in the Nixon and Ford Administrations - Assistant Secretary of Agriculture for Marketing and Consumer Services, Assistant Secretary of Agriculture for International Affairs and Commodity Programs, and Deputy Special Trade Representative.

Ambassador Yeutter received his law degree, *cum laude*, from the University of Nebraska in 1963, where he was a member of the Order of the Coif and the National Moot Court team, as well as Editor of the *Nebraska Law Review.* He simultaneously pursued a Ph.D. program in agricultural economics, completing that degree, with highest honors, in 1966.

Ambassador Yeutter is the recipient of numerous public honors, including seven honorary doctorates. He is a director of several major corporations, and he regularly addresses groups throughout the world on trade and agricultural policy.

U.S. AGRICULTURE-ITS FUTURE

By Ambassador Clayton Yeutter[1]

It is a pleasure to have an opportunity to discuss the agricultural issues of the day here at Louisiana State University, my first visit ever to your beautiful campus. Dr. Paxton gave me a quick tour this morning, and what you have done here on campus in recent years is truly impressive.

My working hypothesis for the morning is "The future of American agriculture is bright, but..." Alternatively, it could be stated as "The future of American agriculture is bright, if..." I will try to analyze some of the "buts" and "ifs", for those are the hurdles we must overcome if that bright future is to materialize.

Let's focus first on a few purely domestic issues, before moving to the more critical international ones.

As you well know, Americans today spend only about 9% of their disposable income on food. That number is one about which we are justifiably proud, for it is far higher in the rest of the world. From agriculture's standpoint, however, we may have erred by patting ourselves on the back for that achievement. The decline in disposable income devoted to food purchases has certainly released funds for other uses - a third automobile in the garage, a television set in every room, an enjoyable cruise during the winter, or whatever. All of that has an obvious appeal to consumers, but it does nothing for the agricultural sector of our economy. Just think how much additional money would

[1]Former United states trade Representative and former U.S. Secretary of Agriculture. Presentation given at the Department of Agricultural Economics and Agribusiness at Louisiana State University, Baton Rouge, Louisiana on April 7, 1999.

be available to producers, and to everyone else in the food chain, if Americans were still spending 15% of their disposable income on food, as they were a couple of decades ago. It seems to me, therefore, that one of the objectives of American agriculture should be to capture an increased percentage of America's disposable income as the future unfolds.

Irrespective of how much income is ultimately earned by participants in the food chain (from producer to consumer), we still have a live issue as to how those earnings are distributed throughout the chain. Hopefully, the market will make that determination, with a reward for each participant based on the value added by that particular participant. In my view, that process has worked relatively well in America's food chain for many years. Intense competition, all the way from producer to consumer, has generally produced such an outcome.

It is an open question, however, whether such will always be the case, here in the U.S. or abroad. Like everything else, the food chain is becoming increasingly global in scope and structure, and that has stimulated an enormous amount of consolidation and integration in recent years. It is conceivable, for example, that only a small number of major companies will dominate food retailing as we move into the next century. The question then arises as to whether the food chain will have producer and/or processor groups strong enough to offset the immense buying leverage of those retailers. If not, a lot of participants in the food chain could find themselves in the "hired hand" category.

The upshot of this is that one can visualize an immense amount of institutional restructuring throughout the food chain over the next several years. We will see mergers, alliances, joint ventures, and all manner of additional relationships established as food chain participants attempt to ensure that they are fairly compensated for the value they add as food moves from producers to consumers throughout the world. Hopefully, this will represent the constructive adjustments of dynamic capitalism, but only time will tell. There will inevitably be significant antitrust challenges as this adjustment proceeds.

The food chain will also be characterized by increasing sophistication as we leave the 20th century. This is a gradual process, of course, one that has been underway for many years. But the pace is now accelerating, and that is critically important. Just two influences, biotechnology and information technology, guarantee a continuation of the present trend. Without question, these influences are predominantly positive. Biotechnology will revolutionize global agriculture in the coming years, in ways we do not now even anticipate. We have become accustomed to the recent use of input traits, such as Roundup Ready soybeans. But producing specific output traits through gene modification, though still embryonic, will expand rapidly in the coming years. Information technology, on the other hand, will dramatically expand the knowledge base available to everyone in the food chain, and particularly to producers themselves. That should improve decision-making, in a whole host of areas, including risk management. Biotechnology and information technology in combination will provide much more rapid advances in efficiency throughout the food chain, and an accelerated pace of executive decision making. For those of us who might today believe the world around us is moving too fast, we will be truly blinded by the pace of movement a decade from now. Participants in the food chain had best prepare for that eventuality, because it will assuredly occur.

One final domestic issue that merits mention this morning is the impact of governmental regulation. Dean Kleckner, President of the American Farm Bureau Federation, estimated recently that regulatory activity is reducing U.S. net farm income by about $20 billion per year. That is a lot of money! Calculating regulatory cost is exceedingly difficult but, whatever the number, Mr. Kleckner's concerns are valid. The regulatory pendulum on environmental and food safety issues has swung a long way in recent years. Food chain participants, producers and processors alike, are spending huge sums of money today to meet regulatory requirements that often are of dubious benefit to anyone. In the future, all of us need to do whatever we can to keep these issues in proper balance, and that will not be easy. Regulatory requirements are often based far more on emotions that on objective analysis.

Let us shift now to the international side of this equation. What must we do beyond the borders of the U.S. if American agriculture is to have a bright future?

First, we must export a lot of product! That is a given, and there are a few U.S. farmers today who do not fully understand that concept. Agriculture is more export oriented than just about any segment of American society, and that alone is advantageous in many ways. We know that American agriculture can never be healthy if we sell only to consumers in the U.S. Our population is simply not large enough, even if we successfully increase the percentage of disposable income that is spent on food products. With more than 95% of the world's population outside the borders of the U.S., that is obviously where our food industry opportunities lie.

But we have to sell to people with money to spend. There are severe limits on how much food we can give away throughout the world, notwithstanding the need (an estimated 800 million undernourished people at present). Government leaders often object to free food coming from the U.S. and elsewhere, and farmers in the recipient countries clearly are not pleased with that kind of competition. Beyond that, American farmers are not going to prosper by giving food away unless their government provides the funding, and that is a dubious proposition indeed.

The better objective, by far, is to sell American food products globally, to people who have the purchasing power to procure them. That means that we must identify the most attractive markets throughout the world, and then skillfully meet the price, quality, and servicing requirements of those markets.

In the future, we will be shipping our agricultural exports far more to private sector buyers than in the past, and much less to government entities. With the massive shift to market oriented governments that has occurred during the past decade or so, the private sector has once again emerged as an economic force in dozens of countries. Private firms are doing much of the buying today, while government-purchasing entities have either disappeared or their purchasing role is much diminished.

Where will the world's purchasing power reside? Notwithstanding the economic turmoil of recent months, one must still look toward Asia for much of our export potential in the coming years. No other segment of the world has a combination of economic and population growth comparable to that of the Pacific Rim nations. Those economies will recover, relatively soon, and we in American agriculture need to be ready to take advantage of the opportunities that will then emerge.

We must, however, recognize the need to open markets outside the U.S., in Asia and elsewhere. That will require the efforts and skills of both our private sector and our government negotiators. We will need to do that multilaterally, through negotiations at the World Trade Organization (WTO); regional negotiations, such as those now underway to create a free trade area in the western hemisphere; and bilateral negotiations, for particularly knotty issues that evolve with individual countries throughout the world

We have made considerable progress in all these areas over the past decade or so. A good many markets are open to American exporters today that were partially or fully excluded when we really needed them during the traumatic early 80s. But there is still a long way to go before the agricultural markets of the world are as open as our industrial markets are today. The playing field on some issues, such as export subsidies, is clearly not level. So we have our negotiating work cut out for us, but that simply means we need to keep pounding away at import restrictions, with determination and tenacity. And it means that we need to keep agriculture as a high priority negotiating objective of the U.S. government. We have the opportunity to do that next November, when the U.S. hosts a meeting of the trade ministers of all WTO countries. The hope and expectation is that this meeting will launch a "Millennium Round" of multilateral negotiations, comparable to the Uruguay Round of GATT Negotiations which was launched in 1986.

Fortunately, one of the future commitments of the Uruguay Round was for a second tranche of agricultural negotiations, to commence in 1999. That means that agriculture will once again be in the forefront of the Millennium Round negotiations, and hopefully the momentum of agricultural reform emanating from the Uruguay Round will carry forward in this next round of negotiations.

The one concern that all of us in agriculture must have with respect to the negotiating environment is that support for free and open trade within our own government seems to be on the wane. The Congress has so far been unwilling to grant the administration "fast track" authority for the Millennium Round (or other trade negotiations for that matter), the result being that other nations are wary about beginning such a massive negotiation. And recently the House of Representative enacted by a 289-141 vote legislation to establish steel import quotas that are blatantly in violation of existing WTO rules. The protectionist argument is that our large trade deficit indicates that we are exporting jobs to other countries. But that ignores the fact that we have the lowest unemployment rate in many years, and that we are clearly the most internationally competitive nation in the world today. Our xenophobia, fed in particular by American labor unions, is nonsensical. The U.S. trade deficit reflects the tremendous economic growth, i.e., enhanced purchasing power, of the U.S. private sector in recent years, coupled with mediocre economic performances throughout most of the rest of the world. Our problem in export markets today, including our agricultural markets, is simply that foreign buyers have too little money to spend, not that we are uncompetitive.

We do have one other government-related challenge to our exports, and that is that we must seek not only to open additional market opportunities throughout the world, but we must also concentrate on retaining our traditional markets. Regrettably we have been losing some of those markets through our frequent application of unilateral economic sanctions. In recent years, it seems that each time we have found egregious conduct somewhere in the world our response has been to apply economic sanctions. What we have told these countries is, "Alter your reprehensible conduct or we will stop selling American products to you." Their response, of course, has simply been to fill their food import and other needs elsewhere in the world. By not persuading other nations to join in the application of sanctions (as has generally been the case), we have just handed those markets to our competitors on a silver platter. That must change, for we have been shooting ourselves in the foot in a big way. Senator Lugar, Congressman Crane, and others are now seeking to deal with this issue legislatively, and hopefully they will succeed. Discipline in the application of sanctions could be tremendously beneficial to American agricultural exporters in the future.

We need not only to export more U.S. agricultural products, but it is imperative that we change the mix of those products over time. For many years, governments were the dominant purchasers of our farm products, and they simply bought our commodities (wheat, feed grains, soybeans, cotton, and rice) and then processed them in their home countries. That, of course, meant that the value added by additional processing went to entities in the importing countries, not to us. Jobs are at stake here, many of which could and should be in rural areas of the U.S. rather than elsewhere in the world. We need to give far more attention to marketing high margin "differentiated products" outside the U.S., rather than low margin commodities. If we can do that successfully in the next couple of decades, we will dramatically increase the flow of earnings to the U.S. food chain. And at the same time achieve substantial growth in food industry employment.

Finally, just a few words about agricultural policy.

With U.S. agriculture under considerable economic stress at the moment, the most recent farm bill becomes a ready target. Some farm groups, those on the left side of the political spectrum, will seek major changes in that legislation in the coming months. But it is ludicrous to blame domestic legislation for unpredictable events which occur outside the borders of the United States. The "Freedom to Farm" bill had nothing whatsoever to do with the speculative bubble of Southeast Asia, the subsequent devaluation of currencies, and the resultant decline in purchasing power of those nations (and a number of others who were adversely affected in an indirect way). Some of our international policies may well have contributed to that debacle, but U.S. farm legislation was not one of them.

What this recent series of events does demonstrate is that operating in a global marketplace is a volatile business. There are lots of risks involved. And since we have no choice but to participate in that marketplace, we must learn to manage risk much more skillfully than we have in the past. There are a good number of private sector mechanisms - futures contracts, options, cash forwards, long-term contractual arrangements, etc. - available for that purpose, but farmers and processors alike need to learn how to use them effectively. Hedging should become a routine business decision, not just an occasional stab at risk protection.

Freedom to Farm legislation does gradually diminish the safety net available to individual producers. Did that pendulum swing too far? Was the safety net lowered before farmers and processors could become comfortable with the risk management tools available to them? Should we push the pendulum back the other way, at least for the short term, through an improved crop insurance program, "revenue" insurance, or something of that nature? Those are issues which the U.S. Congress must wrestle with over the next couple of years.

For the long pull, however, global market conditions coupled with the performance of the American economy - not farm bills – will determine how successful American agriculture will be. This assumes that we maintain our technological and managerial edge over food chain participants in other countries. We have that edge today, in most agricultural products and their accompanying services, and I am persuaded that we can maintain that edge for years to come. Nothing is automatic, however, and we should never underestimate the capabilities or the resilience of our competitors. Nevertheless, if we couple free and open trade policies with a healthy, dynamic entrepreneurial private sector, we will be able to compete with anyone. And we will have farm income in the next century substantially above that of our best years in the 20th century.