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# 1979 FOOD AND AGRICULTURAL OUTLOOK

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## USDA PERSPECTIVES ON FOOD AND AGRICULTURAL POLICIES

(By Howard W. Hjort, Director of Economics, Policy Analysis and Budget, USDA)

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Earlier today I had the privilege of welcoming you to this 55th annual Outlook Conference. This afternoon I want to review with you the state of our food and agricultural policies.

### THE FOOD AND AGRICULTURAL POLICY AGENDA IN JANUARY 1977

Permit me to begin with a review of the policy agenda in January 1977:

The legislative authorities for all the major farm programs were expiring.

The natural disaster programs were characterized by the Secretary as "a disaster."

USDA's farm credit authorities were inadequate and in need of modernization.

Our food and agriculture research charter needed to be clarified and updated.

Several health and safety issues and environmental concerns remained either to be resolved or addressed.

The legislative authorities for the major food assistance programs, both domestic and foreign, were expiring.

International understandings on food aid and food security remained to be agreed upon.

Understandings and rules with respect to international trade in general, and especially with respect to several key commodities, were in the process of being renegotiated.

### THE SITUATION AND OUTLOOK IN 1977

As this agenda makes evident, no administration in recent memory had as great an opportunity to influence the direction of food and agricultural policy. And seldom had the need for doing so been more evident:

The meats sector of the agricultural industry was in a state of depression, especially the beef cattle component, the consequence of previous events and policies.

Declining commodity prices, combined with increased production costs, were moving the crops sector, especially wheat and feed grains, toward recession.

Farm credit problems were on the horizon.

Those who relied upon our farm products, both at home and abroad, were vulnerable to repeated episodes of rapid price run-ups and refueled inflation if adverse weather patterns again occurred.

Uncertainties over the final resolution of health and safety, environmental, and international issues were causing postponement of actions in the private sector that were needed for future growth of the food and agricultural sector.

#### THE POLICY CHALLENGE

In this situation it was necessary to define policies that recognized the changed environment for agriculture and food—the increased importance of foreign markets, the increased contribution of exports to the Nation's trade balance, and the increased impact that agricultural instability transmitted to the entire domestic economy.

We are the world's largest agricultural exporter. The populations of most of the continents look to the produce of our farms for an enriched, more varied diet. Just as the past has shown that the world has become increasingly dependent upon North America for food, the future, with an ever-widening gap between production and consumption in the rest of the world, will undoubtedly see that dependence increase even further.

Conversely, we look to the world for our markets—important for farm prosperity and critical for paying for energy and the other things we import. Yet, while agricultural trade is important, it is a small part of total world agricultural production. Thus, a small variation in world food production sometimes translates into greatly amplified variations in world trade and even greater variations in the quantity and value of U.S. exports.

In the absence of policies and programs that recognized these basic facts, the American farmer and consumer would continue to be whiplashed by events throughout the world.

In addition to the need for our policies to incorporate the necessary flexibility to respond to and compensate for changes in policies of others and in world economic and weather conditions, it was essential to recognize the interdependence of our different economic groups—between farmers, consumers, and taxpayers, and between livestock and crop producers, and among crop producers, in an attempt to treat all participants equitably and to balance the costs and benefits to society.

Our goals for producers and consumers included reducing the extreme fluctuations in agricultural markets which undermine economic security. Our producers needed a more adequate level of price and income support, improved risk protection against natural disaster, greater flexibility in adjusting production under farm programs, more marketing options, and continued growth of export markets.

#### RESPONSE TO THE AGENDA

The administration and the Congress responded to the pressing need for legislative action. The Food and Agriculture Act of 1977 and the Emergency Agricultural Act of 1978 were passed, providing legislative authority for all the major farm programs for the next 4 years.

The disaster programs authorized by the 1973 act were amended and extended for 2 years only, to give the administration time to develop and the Congress time to consider a comprehensive insurance program.

The Agriculture Credit Act of 1978 made a number of changes to modernize farm credit programs. It increased the maximum amounts for insured farm ownership loans from \$100,000 to \$200,000 and for insured operating loans from \$50,000 to \$100,000. It also provided for interest rates to cover the Government's cost of obtaining money and authorized a \$4 billion economic emergency loan program to provide operating credit to farmers and ranchers who are unable to get credit from their usual sources because of recent low prices.

A new and broader charter for food and agricultural sciences, confirming USDA as the lead agency for research, extension, and teaching was included in the 1977 Food and Agriculture Act. This renewed charge from the Congress further supports our task of assuring an adequate, safe, nutritionally balanced diet for all Americans.

Health and safety issues and environmental concerns have been under thorough examination by the Department and others. However, many remain on the agenda, waiting for their most viable resolution.

The Food and Agriculture Act of 1977 reauthorized the food stamp program, and redefined it to improve its efficiency and direct increased benefits to those most needy. Further, the Child Nutrition Act of 1978 signed November 10 authorizes a significant expansion in the women, infants, and children food assistance and child-care food programs. It also gives increased incentives for participation in the school breakfast program.

Foreign food aid is also addressed in the 1977 Food and Agriculture Act, allowing modification in the Public Law 480 programs so that aid can be targeted to those countries where it is needed most.

International understandings of food aid, food security, and trade are presently on our agenda. The International Sugar Agreement was developed. The Agricultural Trade Act of 1978 was passed giving new authorities for trade initiatives. International discussions on other trade matters are currently being conducted and we are participating.

#### THE STATE OF FOOD AND AGRICULTURAL POLICY

These steps taken in the past 2 years have given form to a comprehensive set of domestic and international food and agricultural programs which can meet the changing national and global needs.

Our basic legal authorities with respect to market support and target prices, and those that permit us to encourage producers to withhold land from production when our stock and reserve objectives are satisfied, have sufficient flexibility to accommodate the uncertainties of the future for almost all the price-supported commodities.

Cost of production was adopted as the basis for income support (target prices). The target prices directly address the question of equity among producers of the major crops by using a comparable level of income support.

Market price supports—loan rates—were authorized and established at levels that permits our products to remain competitive in international markets.

No further legislative action is needed to either adjust target prices up or loan rates down—our current authorities were designed to allow for such remedies. They also give the flexibility to adjust production to needs through any combination of set-asides and diversion programs.

It may be that future events will justify relatively minor amendments to existing authorities for some commodities such as extra-long staple cotton, rice, milk, peanuts, and one or two minor commodities. But, with the exception of sugar no adjustments appear to be necessary at this time.

In the case of sugar, ratification of the International Sugar Agreement, and enactment of the necessary implementing authorities associated with that agreement, together with new authority for a realistic domestic sweetener policy remain to be obtained.

A reserves policy was adopted as the cornerstone of the Carter administration's food and agricultural policy. The farmer-owned reserve program gives producers another marketing option. Supplies in excess of market requirements are placed in reserve, which tempers the decline in prices. Yet, between the market support prices and the resale prices for governmental stocks, commodity prices reflect the fundamental conditions of the market.

Producers retain ownership of the grain placed in reserve and will be the beneficiaries when prices advance. At the same time, the reserve gives us greater flexibility in responding to a world food crisis without international or domestic chaos or sharp run-ups in food prices. With reserves we can be a more dependable supplier and the likelihood that our feed prices will again put the American livestock sector through the economic wringer is significantly reduced.

Our stocks and reserves policies are being implemented. Our stock objectives are geared to the necessity of our being a reliable supplier to domestic and foreign buyers and to what we perceive to be our "fair share" of world stocks. Our wheat stock objective represents about 7½ percent of world use. For feed grain, we believe stocks equivalent to be about 6 percent of world use is adequate.

In reviewing the outlook for the current marketing years, it appears that our feed grain stocks next fall will be in excess of our objective, we may be in the same position for rice, but for the other commodities it does not appear that stocks will be excessive. In the absence of the setaside and diversion programs we would find ourselves in a position of holding excess supplies of wheat as well as feed grain.

Our reserve programs appear to be successful. The farmer-owned component of the wheat reserve has been oversubscribed. We believe the rice reserve target will be met. We are not, unfortunately, in a position to assure that we can meet our food aid commitments, but this matter will command priority attention with the 96th Congress. Another near 3 million tons of wheat is destined to be placed in reserve for use in connection with our food aid commitments.

It now is clear that our feed grain reserve objective will be realized but more than initially desired is likely to be in Government ownership. We are prepared to develop farmer-owned reserve programs for other commodities such as cotton and soybeans if the situation provides justification for such programs. It does not at present.

The major unfinished business with respect to the domestic farm programs is the necessity to replace the present disaster programs with a comprehensive insurance program. This will be a high priority matter during the 1st session of the 96th Congress.

Our farm credit authorities have been updated and expanded in a manner that permits us to be far more responsive to the credit needs of our agricultural producers. No further amendments to these authorities appear to be necessary.

The administration supports a countercyclical concept to govern the importation of meat into the United States, but the measure containing such a formula could not be signed due to the restrictions on access and the President's authority. We are prepared to work with the new Congress to complete action on this matter, but will administer either the 1964 act or one in a countercyclical manner.

Meat prices have risen rapidly, mainly the consequence of past food and agricultural events and policies. Meat supplies will be relatively tight and prices relatively high, but we believe that the feed policies and programs together with current supplies and reserves are adequate to result in orderly and balanced growth between the livestock and crops sectors.

Our major domestic food assistance program has been modified to eliminate the purchase requirement and this new policy is soon to be implemented. Recently approved legislation significantly expands the women's, infant and children food assistance program which, according to all available evidence, appears to be a very effective way to improve the nutritional status of program participants. The continuing future task will be to follow policies with respect to the domestic food assistance programs that will maximize our contribution to nutrition objectives. We have been and will continue to be in a situation where it is necessary to minimize Government expenditures and this will require reductions in less effective programs to make room for those that are more efficient and effective.

There are a number of health and safety issues that remain to be resolved, among them the use of additives in livestock feeds, sulfa residues, nitrites and nitrates, and grading and labeling issues. Many of these issues have remained unresolved too long and the uncertainty associated with not knowing how they are to be resolved in some cases may be creating greater problems than the issue itself. The important task is to get these issues resolved but not before assuring that all interested parties have full opportunity to participate in the decision-making process.

International discussions are underway on a new food aid convention but this matter—as well as the entire question of the Carter administration's role with respect to eliminating world hunger—remains to be resolved.

The International Sugar Agreement remains to be ratified by the United States and a new international wheat agreement with its mainstay an international reserve of wheat stocks remaining under member-country control, is, hopefully, in the final process of being negotiated.

The multilateral trade negotiations are in the final process. Here the major objective is the reduction in barriers to trade such as tariffs, multilateral codes and subsidies, and improvements in international trading rules.

Expanding our export markets for agricultural products has remained high on the policy agenda. The quantity of short-term credit available in fiscal year 1978 was increased to \$1.7 billion, almost double the amount of the previous year, and will remain high this year. The market promotion program has been granted the highest priority for additional funding and we opened our first overseas trade office earlier this year.

Our agricultural exports will also be given new emphasis by the Agricultural Trade Act of 1978 which directs the establishment of 6 to 20 more trade offices in major markets. These will be established as



justified. And under the same act, we now have authority to extend intermediate export credit for breeding livestock, the building of grain reserves by developing countries as a part of an international agreement such as the IWA, and for construction of market facilities abroad. This 3- to 10-year credit program supplements the short term CCC export credit program and the long term Public Law 480 programs. The use of this authority for the construction of market facilities will be used only when it is evident that other authorities cannot adequately provide the necessary credit.

There are several other matters that remain upon the agenda. In the present situation inflation is the No. 1 problem facing American agriculture. Farm production costs continue their persistent move upward. These costs, determined by the prices of nonfarm inputs that farmers have to buy, tend to move up with the general rate of inflation.

But it is not only inflation in the general economy which continues to escalate the costs of producing food at the farm level—inflation is felt throughout the entire food system. And because we are in a situation where nearly 70 cents out of every dollar that is expended at retail goes to pay for the services associated with bringing those items from the farm gate to the checkout counter, inflation will be the major source of the continued increase in what we pay for food at retail.

We in the food and agriculture sector have a vested interest in the effort to reduce price inflation. USDA will work with the Council on Wage and Price Stability in monitoring food and fiber prices at the retail, wholesale, and farm levels, with a view toward the identification of the sources of upward price pressures within the food and agriculture sector and the identification of measures that can be taken to reduce such pressures.

While our agricultural system has the capability to meet increasing world demands for food, our agricultural transportation system appears to be pushing capacity and showing signs of strain. It just may be that the most effective constraint to the rest of the world being able to satisfy its consumption requirements in the near term may be due to an inability on our part to transport it to ports and load it on ships. This concern is moving higher on the policy agenda.

There are other issues moving onto the food and agricultural policy agenda. Among them is the overall question of the future structure of American agriculture. There are serious questions that will be addressed over the use of land and water, over landownership patterns, over taxation policies, and their implications for the structure of American agriculture.

In summary, many food and agricultural policies of the Carter administration have been put in place, but there are several that remain on the agenda. Most of these will be resolved and implemented before the next Outlook Conference, but some will remain to be addressed. In the meantime, new ones will move onto the agenda.

In conclusion, the state of American agriculture is decidedly better today than it was when you came to this conference a year ago. While this improvement certainly is not entirely due to the food and agricultural policies that have been implemented over the past 22 months, those policies clearly have been the source of some of the improvement. As others on the agenda are approved and implemented they also will have a positive impact. It is our hope that the state of our food and agriculture industry will be better when you return a year from now.