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**Agriculture in an Uncertain Environment**  
**Response to Comments Presented by Norm Berg**

**Thomas R. Hebert**

**Deputy Under Secretary, Natural Resources and Environment, USDA**  
**1995 Agricultural Outlook Conference**  
**February 22, 1995**

We have an opportunity in the 1995 farm bill to help begin to heal a divisive split in this country -- a split that not only pits citizen against citizen, city dweller against the rural dweller, agriculturalist against the environmentalist, but also paralyzes us and prevents us from achieving the high levels of health and vibrancy in our natural landscape that we are capable of as a country. Mr. Berg mentioned a new social contract between agriculture and the country. I agree that a new contract is possible if it can be based in large part on a greater shared understanding of the natural resource and environment problems we face and the programs that will successfully address them. This is the opportunity before all of us now -- agriculture, the Administration, Congress, the environmental community, and we must try to not let it slip away.

To begin to heal this split, and help the country move forward, we must confront the very topic of this session, "uncertainty". Mr. Berg discussed many of these uncertainties, and if you stop to think about it, uncertainty leads to all kinds of problems. As a country we are uncertain about the true nature, extent and seriousness of our natural resource problems at the farm and ranch level. This uncertainty is compounded as we move away from the farm and field level as we try to understand how the problems at the local level add up to a total problem for the country. We know that there are issues that need to be addressed, and some of these we can describe in detail from a national perspective, but there is enough uncertainty that instead of moving forward with programs we remain stuck debating each other.

We are also very uncertain as a country about how to go about addressing these problems, once identified. The farmers and ranchers are very unsure about how the management practices and other changes that could help address the identified natural resource issues will affect their profitability. They are understandably nervous about this. As a result, agriculture wants programs and policies that are flexible, and very responsive to local conditions and needs. The environmental community, on the other hand, is very uncertain about what agriculture will do with this flexibility -- will the adoption of solutions be put off in the name of uncertainty, or will flexibility be used to render the adopted solutions ineffective?

By this, I do not mean to imply that we have been in the dark on some of the most pressing natural resource issues. We have tackled soil erosion and many of the attendant water quality problems in this country, and made major and dramatic headway. The same is true for flood water management issues in small watersheds, the loss of wetlands and some wildlife habitats.

But problems in these and other important areas continue to exist, and there is no question that they need to be addressed.

The question is, how do we deal with this uncertainty -- and fill the void created by the lack of information -- so that a new understanding and contract is possible?

There are several things we can do right now, with help from the farm bill, to reduce the uncertainty we face and help us to proceed. The principles of reinventing government that this Administration and Congress are discussing point the way.

There is no question that we have a solid general sense in this country about the important problems we face -- water quality, wildlife habitat, watershed restoration and floodwater management. The first practical step in reducing our uncertainty would be for the Department to set national standards and guidelines for the identification of these problems as they are uniquely expressed at the local level. Flexibility would be needed at the local level for the use of these guidelines. National and state standards and guidelines are also needed for how to organize and plan for the natural resource work needed to solve these problems.

With these in place, the Department could rely on our agencies at the local level, working in partnership with private landowners and the other stakeholders in these communities, to tell us what exactly are the natural resource problems they believe need to be addressed, and how they would go about this work. The agencies would work with the stakeholders to develop specific action plans for systematically addressing these identified problems with the accepted solutions. These plans of work would also need to include reporting and evaluation elements that would allow for meaningful performance measurement. The state level of the agencies would work with their regional and national offices to evaluate the projects and prioritize among them so that the national funds made available for this effort would be spent in the most effective and efficient manner possible.

The bottoms-up plans would then be aggregated to identify first state, then regional, then national plans of work. The state, regional and national plans of work would be guided by the national standards and guidelines that could specify the broad classes of natural resource issues that Appropriations from Congress could be guided by these national plans of work, and in this way Congress would be involved in the prioritization of the activities that would receive funding.

The point is, we need to develop a model that can fill in the gaps of information that lead to so much uncertainty and divisiveness. This is one model that the Department believes has considerable merit, and if adopted could help us forge a new contract and bring to an end some of the most destructive divisiveness that is stopping us from doing the work that needs to be done.

# *AGRICULTURE IN AN UNCERTAIN POLICY ENVIRONMENT: TRADE ISSUES*

## **I. INTRODUCTION**

- The 1995 Farm Bill debate and the building budget deficit debate present "an opportunity that cannot be ignored" for a thorough-going review of our international trade policy for agriculture, especially for developing a new, long view.
- This conference session is aptly titled. Today's policy environment resembles 1985 in its "uncertainty quotient," and will result in the most dynamic debate in a decade. It is characterized by all the usual economic uncertainty, with the added dimension of an unprecedented political upheaval. In addition, it comes on the heels of a geo-political revolution in the first half of the decade that saw the collapse of socialism and the emergence of fledgling democracies and market economies in many parts of the world, successful conclusion of the Uruguay Round GATT accord, creation of the North American Free Trade Agreement, expansion of the European Union, and numerous new alliances, buoyed by the resurgence of world economic growth..
- The 1995 farm bill consideration also comes at a time marked by a "New World Trade Order". This derives in part from the Uruguay Round GATT accord, the first in history to include agriculture, from the creation of NAFTA and other regional trading blocs. But, it is much more. It is a new mindset that embraces new concepts and a new language (GATT-legal, Greenbox, etc.). The order is characterized by a reduced role for government in agriculture, for less intrusive and less costly programs. This conviction extends from Western and Central Europe to Latin America, the Caribbean, certainly to the United States, and to elsewhere.
- Taken together, these trends mean that the 1995 farm bill is being developed at a time of "sea changes" in the government role versus that for markets. Greater reliance around the world is being placed on markets and less on governments in the agriculture sectors and food systems.
- This also is a time when the long-term market outlook and the prospects for global agriculture trade are very favorable, especially for high-value products, perhaps the most favorable outlook in almost two decades. This provides a strongly supportive backdrop against which to consider diminishing government support for agriculture. But, countries all across the world are looking at the same backdrop, highlighting the role of competitiveness in the future.

My remarks today will:

- first review briefly the importance of foreign markets to the U.S. agriculture and food system;

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Notes for remarks by J.B. Penn, Senior Vice President, Sparks Companies, Inc. at the USDA's Agricultural Outlook Forum, Washington, DC, February 22, 1995.

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- discuss briefly the foreign market outlook for the next several years; and
- then suggest some of the issues that merit consideration in development of long term trade policy.

## II. IMPORTANCE OF FOREIGN MARKETS

Strong reliance on the foreign markets is a relatively recent development for U.S. agriculture and our food system. By the early 1970s, less than 25 years ago, agricultural exports amounted to only \$8.0 billion annually. The now famous export boom of the 1970s boosted that to an incredible peak of \$44 billion by 1981. The equally famous export market bust that dominated the 1980s saw export sales values plummet (to \$26 billion in 1986) before slowly returning to the former peak only this year. The result, for the 1980s, was the deepest farm recession since the 1930s.

At the height of the mid-1980s recession, with exports at their nadir, the key philosophical policy debate concerned the role of foreign markets in the future of U.S. agriculture and the importance of being competitive. That debate was settled decisively and its outcome defined many of the key provisions of the 1985 farm bill, the Food Security Act, and placed U.S. agricultural policy on a path toward greater market orientation and greater reliance on the foreign markets.

Today, it is difficult to overstate either the importance of those markets or the disruption and dislocation that would follow their loss. Today's \$45 billion agricultural export level also represents a key positive contribution to the nation's overall trade balance and accounts for substantial employment in the food system. For certain commodities and products, overseas sales represent major and growing share of total production, especially of food grains. Of our major field-crop commodities, we export:

Wheat	56%
Rice	45
Soybeans	31
Feed Grains	20

Overall, in 1994/95 we will export bulk commodity production from about 80 million acres, some 34% of our entire cropland area. It is abundantly clear that without our growing export markets, we would face the prospect of idling fully one-third and perhaps more of our agricultural production plant.

But, the importance does not end with the crop commodities. Today, exports now account for significant and growing proportions of the total output of high-value products (some little exported at all until very recently). We now rely on overseas markets for:

Broilers	12%
Beef	7
Turkeys	5
Pork	3

To summarize, exports account for more than one-fourth of gross farm sales, one third of the major field crop acreage, very sizable and growing shares of income and employment in the food system and a major, positive contribution to the trade balance. One could continue with such statistics but the point is clear that the foreign markets are not only highly important to the U.S. agriculture and food system but also represent the most dynamic segment and most likely source of future growth.

### III. FOREIGN MARKET OUTLOOK

The global market outlook for the foreseeable future for food and agriculture is now more favorable than at any time in the past fifteen or so years. This optimism traces largely to expected synchronous economic (GDP) growth in most major developed and developing economies around the world, a very rare occurrence for perhaps the first time in the post-war period. Positive economic growth means rising consumer incomes which in turn boost demand for food--not only through increased consumption but also by dietary improvement--and more processed and high value foods.

This favorable economic outlook is reinforced by the new GATT agreement which is expected to further increase GDP expansion significantly, especially toward the latter part of the implementation period.

USDA's long-term outlook already has been presented to this conference. Drawing upon that view, together with projections by SCI and others, provides several highlights including:

- World grain and oilseed trade is growing faster in the 1990s than in the 1980s and accelerating after 2000 based heavily on income growth stimulated by the GATT accord.
- U.S. agricultural exports rising from \$43.5 billion in FY 1994 to \$55 billion in 2000 and exceeding \$68 billion by 2005.
- U.S. exports projected to grow 7-plus % in 1995, slow slightly in 1996 and 1997, and then exhibit strong growth in 1998 and to the end of the period. Very rapid overall, average annual growth of 3.9% is expected from 1995 to 2005.

- High value exports are projected to grow nearly 5% annually between 1995 and 2005. Bulk export growth of 1.6% through 2000 and 4.2% thereafter is expected.

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	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>% growth</u> <u>1995-2005</u>
Total agricultural exports	46.5	54.5	68.1	3.9
Bulk commodities	19.1	20.7	25.4	2.9
High-value products	27.4	33.8	42.7	4.7

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These projections reflect the broad restructuring that occurred in the U.S. farm sector in the 1980s and the emergence of a much more efficient production plant. They also reflect a leaner, more competitive agribusiness sector developed in the early 1990s. In short, the entire U.S. farm and food system now is increasingly competitive at a time when the outlook for more open, growing global markets is highly positive.

The importance of this backdrop to the farm bill and trade policy consideration is clear. One can expect less government support for agriculture and a declining role in the United States (and elsewhere in the world) for a range of economic and political reasons, not the least of which is the sector's need for less support today. Simultaneously, markets are going to be relied upon more and more to take up the slack, especially during the transition period, a dynamic that could stimulate growth independently as government intervention declines. This policy view already is becoming apparent as we enter the early stages of the farm bill debate.

Such a prospect makes it vitally important that the U.S. farm and food system capture an increasing share of the expected market growth. It underscores the need to be competitive, and to ensure that our policies do not interfere with or impede competitiveness, not only in the farm sector but throughout the food system. Hence, now is a good time to review the U.S. trade policies.

#### IV. KEY ISSUES

Today, U.S. agriculture has the luxury of considering long-term rather than only the short-term issues that normally dominate farm bill debates. In that context, the principal concern of our trade policy for the foreseeable future, especially that embodied in the 1995 farm bill, will concern **competitiveness**. The new law must ensure that both our farms and the entire food system are not constrained as they compete to expand their share of the global markets. Discussion along these lines is not new--reviews of how current policies will affect competitiveness in the future have been building widely--and interest is centered on a few broad areas including our domestic commodity programs, environmental and other regulations, and the market development and



expansion programs. The remainder of this section will discuss a view of our policies from that perspective.

### **Domestic Commodity Programs**

Various forms of both price and income supports and the supply controls necessary to manage them long have been central policy features. That long experience has yielded ample and widely accepted evidence that despite good intentions and some positive benefits, these programs generate a wide array of unintended consequences and have increasingly important development drawbacks for farmers and the entire food system. Especially, they limit foreign trade and competitiveness.

- There is overwhelming evidence that our programs distort farmers' decisions, cause expensive misallocation of resources, place U.S. farmers at a competitive disadvantage in world markets, and, frequently, undermine the U.S. market position by signaling foreign competitors that U.S. crop output will be constrained and prices higher.
- Price supports above world market clearing levels price our products out of many world markets, reduce market share, and accumulate expensive carryover stocks.
- Acreage idling programs raise production costs and spread fixed expenses over fewer acres. They encourage uneconomical input use (further raising costs), and may have unintended adverse environmental effects which invite subsequent environmental regulation which too may add to higher costs. They also have been criticized for their secondary effects on economic activities and rural communities.
- Annual idling programs (ARPs) have been used less in recent years, due in part to the fact that some 36 million acres are idled under long-term contracts in the Conservation Reserve Program. While the extension of that program now is under consideration, the long-term ERS market outlook clearly indicates that the U.S. competitive position will be impaired if that much acreage is reenrolled for another long-term period, reducing our ability to meet growing demand.
- Program benefits eventually are bid into asset values raising the cost base for new and expanding farmers, again placing them at a disadvantage to foreign producers.
- Today's programs continue to damage the U.S. commodity related infrastructure, and to raise feed costs reducing competitiveness of the growing value-added markets for meat and poultry products.

### **Environmental and Other Regulations**

Commercial agriculture's role in protecting our environment now has been a central feature of agricultural policy for more than a decade. Recognition that environmental programs and regulations have broad implications, beyond the local problem being addressed, are growing, as

well. These include costs of compliance by farmers, processors, handlers, and others in the food system and their ultimate effect on foreign market competitiveness, especially in markets where competitors may have much lower environmental standards. This realization is leading to suggestions that environmental policy be viewed in a more global context, concerning not only relative production costs but also global resource use (forests, prairies, etc.). And, it is leading to calls for greater evaluation of the costs and benefits of future proposed regulations. Both concerns are fundamentally important and can be expected to receive widespread attention in the upcoming debate.

### **Market Development and Export Expansion Programs**

The global trade picture and especially prospects for U.S. product access to growing world markets were buoyed by the recently concluded trade agreements (Canadian Free Trade Agreement, NAFTA and GATT). The ability of U.S. exporters to take advantage of these opportunities will depend on several factors, including the value of the dollar and especially the nature of U.S. market development and export support. The major manifestations of that policy now are contained in familiar programs (EEP, GSM, MPP, and PL-480). The circumstances surrounding all of these programs have changed significantly over the years and, now, in light of the new economic backdrop and the current fiscal climate, would appear to be a propitious time for their reappraisal. The task in refocusing these programs is to make them consistently support long-term market growth.

**Export Enhancement Program.** First authorized in the 1985 farm law, this program targeted "unfair trading practices" of major competitors, especially the EU. It was subsequently extended in the 1990 farm bill (through expansion of DEIP, SOAP and COAP). These programs were extended until 2001 in the Uruguay Round implementing legislation (and the requirement that they be used exclusively to discourage unfair trade practices removed). Specific Uruguay Round restrictions constrain both outlays and volume of commodities subsidized.

This program has been controversial from the outset and continues to be, with recent calls by Congressional leaders for its immediate termination. The continued availability of export subsidies by trading partners reflects a serious shortcoming in the Uruguay Round. The current debate is polarized between those who suggest that these subsidies are no longer needed and others that argue that they must be utilized to the fullest allowable extent. Apart from this debate is the much larger issue of how these programs fit into an overall, long-term export expansion and promotion policy and what the form and expenditure levels should be.

**Market Promotion Programs.** This program and the Foreign Market Development Program ("Cooperator" program) was continued in the 1990 law to provide shared federal funding for overseas market development activities by commodity and food trade associations and companies. They too have been questioned regarding their overall efficacy, manner of operation, fund use, concentration on bulk (versus value-added) products, and even whether taxpayer dollars were more effectively spent promoting exports from other sectors rather than agricultural exports. The larger issues also loom here--how will these programs fit into the overall export promotion and market development policy.

**Export Credit Programs.** These credit guarantee programs provide efficient short and intermediate-term support for overseas sales to buyers unable to access credit through normal commercial channels, and have important restrictions attached to their use. However, the efficacy of these programs also is questioned from time to time and issues will be raised again in the upcoming debate. Key concerns will include costs and benefits of additional credit resources for exports and the federal government's budget exposure in such efforts.

**Food Aid Programs.** These programs [PL-480, the Food for Peace Act traces to 1954 and section 416(b) of the 1949 Agricultural Marketing Act] were modified in the 1990 farm law and their goals and administration clarified somewhat. But even so, both programs will be questioned seriously in the 1995 debate, especially in terms of their effectiveness in building commercial markets.

Food aid has been an important but declining component of U.S. development assistance. In fact, these programs were most important when we had chronic commodity surpluses and a much clearer foreign assistance objective to meet the global communist threat. Today, we no longer have chronic surpluses nor the communist threat, leading some to suggest that their very rationale be reviewed just as our overall national foreign economic assistance objectives and rationale are being reassessed. In addition to this overarching issue, funding levels and the continued use of "cargo preference rules" likely will be points of contention for these programs.

**Lingering and Emerging Issues.** While much of the farm bill/trade policy debate will center around the programs and issues discussed above, there are lingering issues that need special consideration. One example is the festering trade dispute with Canada. Additionally, a host of new issues are emerging involving the interpretation of the Uruguay Round GATT provisions, expansion of the NAFTA trading bloc and the scope of any fast track authority granted to the Clinton Administration, and many others.

As we consider now the longer term view of each of our programs, it is clear the change in concept must be kept simple if it is to succeed. In simplest terms, we need to insure that we preserve the aspects of our policy that are working and convert the system in its entirety **from** surplus disposal **to** commercial market development, the 21st century view.

## V. SUMMARY

- The 1995 farm bill provides an opportunity to review our international trade and related policies, especially given the significant changes that have occurred and the new, highly unsettled political environment
- Foreign markets are highly important to U.S. agriculture, the food system, and the national economy, and will become increasingly so in the years ahead.

- For the longer haul, competitiveness will be the key to maintaining and increasing global market share. Governments play a big role in that contest, and we must ensure that our policies facilitate rather than impede our growth.
- Key areas of government policy for review are: domestic commodity programs; market development and promotion programs; environmental and other regulations; and lingering issues along with emerging ones. Budget issues are important. How we ensure competitive U.S. market access in the future is even more important.
- This also may be an opportune time to take advantage of a particular circumstance--declining domestic support for agriculture against a backdrop of growing global markets. Similar developments in the United States, the European Union and other important trading nations could build upon the momentum developed during the Uruguay Round to resume negotiations for further reductions in domestic subsidies (and even supports), and greater market access. Times like these may not soon return.