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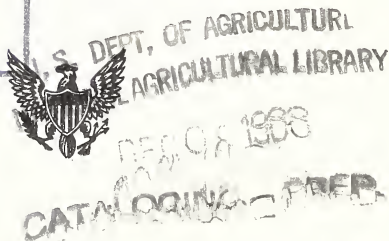
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AGRICULTURE AND WORLD ECONOMICS

(By Gerard Viatte, Head of the Agricultural Trade and Markets Division,
Organization for Economic Cooperation and Development, Paris, France)

I very much appreciate the opportunity to attend your 1977 Outlook Conference. It is a great honor for me personally, and for the OECD, to be a member of the very distinguished panel of this morning introductory seminar, although it is not very easy to be the only non-American at this table. Please excuse me if my accent is far from being typically American: you can't expect too much from a French-speaking European in this respect! Let me first tell you how much we appreciate, at the international level, the efforts of the USDA to continuously improve its outlook work, and to disseminate its results widely and frankly. This is surely a major contribution to the development of a better world market intelligence system, which should be beneficial to both Governments and farmers.

The preceding speeches have been so exhaustive and accurate that I can limit myself to three groups of short remarks, with the purpose of putting the American outlook in a wider perspective.

First, with regard to the general economic outlook. I have been pleased to hear that Mr. Malkiel remains optimistic despite the present slowing down of the rate of growth, and I hope that he will be right. The OECD is doing in-depth and regular work in this field. As you probably read in the press, we have recently reduced our forecast for the OECD growth rate for the record half of 1976 from $4\frac{1}{2}$ to $3\frac{1}{2}$ percent, so that the rate of growth for the whole year is likely to be around 5 percent, instead of our previous estimate of $5\frac{1}{2}$ percent. As far as 1977, the prospects are still surrounded by a large degree of uncertainty. Various press reports have mentioned some figures for the 1977 OECD forecasts, but such figures have at present no official basis. We will publish our forecast only in the December issue of our Economic Outlook publication. However, it is likely that the estimate published in July regarding the first half of 1977 (5.25 percent) will also have to be revised downwards. I am afraid that I can't tell you more today.

But there is one aspect which I would like to stress with respect to food demand. In the present highly complex economic and political situation in the major OECD countries, the effect of economic growth on food demand is not as simple as before. A number of other factors, both economic and political, have to be taken into account: inflation rate, balance of payments situation (in particular with reference to the envisaged rise in oil prices), price policies, trade policies, etc. Policy factors are playing an increasing role particularly in Europe. Let me just quote two examples: (1) The operation of the monetary com-

pensatory amounts (MCA's) which have the effect of subsidising food imports into some EEC Member countries with devalued currencies, in particular the United Kingdom. It may prove extremely difficult to maintain the present level of MCA's for budgetary reasons. (2) The efforts by Italy to limit meat consumption and imports in order to reduce its balance of payments deficits. These two factors may have a great impact on demand for livestock products in these countries, where income and price elasticities are rather high, and, as a result, on the import requirements of feedgrains and soybeans.

Second, the world market outlook for the major commodities is dominated by the coincidence of very good crops in North America, the USSR and the developing countries. For wheat in particular, the outlook is completely different from the situation of the past five years. And it will certainly be discussed in depth during this seminar. For feedgrains, the outlook indicates a more balanced supply/demand relationship and the accumulation of stocks is expected to be much less pronounced than for wheat. The only sector characterized by a very tight supply situation is protein feed (soybeans, fishmeal, etc.)

The only factor which could have disturbed the outlook for the next season is the European drought, which was extremely severe in June-August. But the climatic conditions in September-October have been quite favorable and have helped to mitigate the problems, in particular due to a very good grass growing conditions. In any case, we must recognize that the drought has had very severe impact on some regions and farmers, but that it has not distorted the world markets so far. In the EEC, wheat production has been as high as last year (which was below average). Higher import requirements of feedgrains and soybeans can be expected, but this should be put in perspective: if we assume that the EEC may need to import about 6 million tons of corn more than last year, it is striking to note that this figure amounts approximately to the upward revision of the U.S. corn production from October to the November estimate. As far as the livestock sector is concerned, the exceptionally high slaughter registered in the summer represent to a large extent an anticipation of the normal autumn slaughter. If the winter is not too hard, allowing cattle to remain on grass as long as possible to offset the fodder deficit, it can be hoped that the cattle production potential will not be seriously affected. Dairy production continues also to be slightly higher than last year, despite some reduction this summer in France.

Third, I would like to draw your attention to three topics on which I think that we should all reflect further during the Conference: (1) The expected building-up of stocks, in particular of wheat, has important positive aspects, from the point of view of world food security. However, in the absence of a satisfactory international system, these stocks will have to be carried on mainly by the major exporting countries, i.e., the United States and Canada. As they are not isolated from the market, they have a depressing effect on the price, and may constitute disincentive for farmers to plant next spring or next autumn, if the situation remains the same. (2) The generally favorable supply situation for the next season does not imply that the world food problem is solved forever. A high degree of uncertainty remains about the medium- and long-term trends, in particular as far as the USSR

and the developing countries are concerned. A close watch at the developments continuous to be needed, try the way of improved market surveillance system, both at national and international levels. (3) The key to future food and agricultural situation seems to be to maintain producers' confidence and to ensure a satisfactory (if not total) degree of market stability, so that the important production potential which exists in the OECD area, in particular in North America, is used in the most efficient way, in the interest of the producers and of the domestic and foreign consumers alike.