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KEYNOTE ADDRESS

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Secretary of Agriculture
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To begin, let me report to you about the U.S. Economic Delegation to Poland which will depart later today. On behalf of President Bush, I will lead a group of about 20 very talented people from the private sector, some of whom are agriculturalists, others from the industrial sector, and the finance sector, and from academia. Other government representatives are Chairman of the Council of Economic Advisers Michael Boskin, Secretary of Commerce Robert Mosbacher and Secretary of Labor Elizabeth Dole and officials from USDA and the Treasury and State Departments as well.

We will take a very close look at the entire Polish economy over the next two and a half days. Much of the focus on Poland until now in all areas has simply been on aid and assistance programs of one kind or another. Although very important, that kind of help is transitory. We do not want to see Poland become dependent upon the United States, Western Europe, Japan or anybody else for aid as a long-term proposition. The healthy way to have this economic upheaval evolve in Poland is to convert it from an aid or assistance kind of environment as quickly as possible into a political and economic environment in which the government and the economic system can safely stand. We will try to examine the situation to see what we can do to help them do over the next 3 to 5 years. It will be interesting to see whether we learn some things in Poland that might have applicability in some of the other Eastern European countries as they move away from Communist domination as well. We may have a better answer when we return.

These are fascinating times indeed. For if all goes well in Poland and in other countries of Eastern Europe, over time they will be better customers for American farmers and for others as well.

Now let's look at the broader international scene. As most of you know, the United States surfaced its final proposal in agriculture for the Uruguay Round in Geneva a month or so ago. This will now be the precursor to intense negotiations next year. Others have yet to surface their final positions in agriculture. The Cairns Group -- about 13 agricultural exporting nations, including Canada, Australia, New Zealand and Argentina -- surfaced its paper just yesterday; it is very consistent with ours. Japan surfaced a final position paper yesterday as well. Some of that is compatible with ours, but

most of it is not, which is not too surprising. The European Community has not yet finished its final paper. It is unlikely that it will be compatible with ours. We always hold out hope that reason ultimately will prevail in Brussels, but that may have to await the negotiating process.

In my judgement, we have postured those negotiations properly with emphasis on activity and disciplines and reforms in the area of export subsidies, market access or import restrictions, internal support programs, and finally, sanitary regulations. There are four blocks for agricultural trade reform, as we see it, and in my judgement they are all tremendously important. We will obviously see some second guessing of all of these position papers. This is going to happen in every country and that is probably inevitable as the concluding year of negotiations unfolds. People begin to postulate worst-case scenarios. I hope you who represent agricultural groups and organizations here and abroad will not do that. We ought to be able to do better than that in the Uruguay Round, not only for the United States but for many of the other participants as well.

Just to give a couple of examples, I continually hear people saying, "The United States wants to get rid of all farm subsidies, all farm income supports." That is just totally unrealistic, and a misrepresentation. It has never been the U.S. position. We can have differences of opinion as to how the negotiations should ultimately emerge, but deliberate misrepresentation certainly does not help the negotiating process and does not help bring about a sound and sensible result. We have no objections to a continuation of income supports in any country. We expect that to occur in many countries, including the United States, for a good many years to come. The question is how those supports are designed. And all we have been saying for 3 solid years now is that all nations, including the United States, ought to be able to design their programs of financial support to farmers in ways that minimize distortions to trade. That is an objective on which everybody in the world ought to be able to agree. If we can agree on that as a legitimate objective in agricultural trade policy, then we can make significant progress in these negotiations.

I also keep seeing some reports that farm incomes in the United States are likely to decline if full trade liberalization is negotiated in the GATT. Such reports pick out only the elements of some of the studies, including USDA's, that can be used to support their particular arguments. There is no doubt that if one were to wipe out all price and income supports tomorrow in the United States and other countries, incomes would go down at least in the short run because trade volumes would not increase enough overnight to generate income out of the marketplace to offset the loss of income that had come from government. But nobody is suggesting that income supports go down to zero. So if that's the assumptions of the reports, those of us who read those studies and cite from them ought to be circumspect enough and intellectually honest enough to recognize that suggesting a reduction in income is really an irresponsible distortion of what they say. The fact is, all those studies indicate that world market prices for most products would rise with trade liberalization. And as a consequence, incomes emerging from

the marketplace in many countries, particularly the United States, would rise. Then, to what degree governmental support is adjusted is a question to be decided by each country. The increase in economic welfare that would result from trade liberalization and trade reform, however, is such that millions of farmers would be better off than they are today.

This is a subject that ought to stimulate the interest of each of you over the next 12 months. Certainly we need the support, the involvement and the counsel of the entire agriculture community as we try to obtain a result that is good for the United States, good for American agriculture, and good for the world. I think it is all achievable.

Now let's discuss farm legislation for 1990. We have not finalized our own views within the Department of Agriculture. We will, probably after the first of the year when Congress returns because that is when the debate will commence. I believe it is incumbent upon the President and the Secretary of Agriculture to speak up on these subjects, and we intend to do so. We intend to work with the Congress in a cooperative vein. That will be our objective, our tone and our intent. I hope we will see Congress respond in a comparable manner.

There have been some comments that we want to write the 1990 Farm Bill in Geneva, Switzerland, in the GATT negotiations I just mentioned, rather than in Washington, D.C. That is nonsense because the 1990 Farm Bill is very likely to be written before the negotiations are finalized in Geneva. Therefore, if changes in farm legislation are called for by the negotiating process, they will have to occur in 1991, not 1990.

What should we do then in 1990? Should we simply extend present legislation or hone and polish it some as we go into the 1990's? I believe we ought to attempt to hone and polish. This is a fast-changing world and all of us know that there are some shortcomings to the existing farm legislation. My judgement is that there is a substantial level of satisfaction with the 1985 Farm Bill, but nothing is perfect. We ought to be able to make changes in the 1985 Farm Bill that would be meaningful for 1990, some of which could clearly carry on a good number of years irrespective of what happens in Geneva. In fact, it is conceivable that much of that legislation could stand on its own, without in any way violating the spirit of what we are attempting to achieve in Geneva, and would not need to be changed in 1991. So we ought to work diligently to make changes that are appropriate. Certainly the whole question of flexibility will come to the fore. Everybody seems to be in favor of flexibility. Not everybody agrees on what flexibility is or should be, but our present farm bill structure is much more rigid than it should be.

There ought to be some additional emphasis on what we need to do in this country to make sure that we are internationally competitive. In the long run, we have to compete. We have been competing very well in agriculture. I am convinced that we can continue to do so in a vast percentage of American agricultural enterprises for many years to come. That is imperative if we

are going to have agricultural trade reform in the world and open up some market opportunities.

We also need to work on the whole subject of what I call demand-creation or demand-generation. This gets into the philosophical discussion of supply-management approaches to raising prices and incomes for American farmers versus actions on the demand side to raise farm prices and farm incomes. I confess to being a bit surprised that the supply-management approach has any advocates in this country. It obviously has fewer than it did years back when it was first tried.

There is an infinite variety of ways to attempt to raise farm incomes through supply-management approaches. Most have been tried at one time or another over the last 40 years either here or in other countries around the world. Most, if not all of them, have failed at one time or another. The fact is that the cost of supply-management approaches must be borne either by taxpayers or consumers.

I would simply pose a couple of rhetorical questions. Do you really believe it is possible to make a case for additional taxpayer costs to support supply-management approaches in the future? In the face of a \$100-billion-plus Federal budget deficit, which is required by the Gramm-Rudman-Hollings law to drop to \$64 billion in fiscal year 1991, \$32 billion in fiscal year 1992, and zero in fiscal year 1993, what are the probabilities of finding additional Federal tax dollars to support supply-management programs? I would appraise those probabilities as being between slim and none.

Can we convince the consumers of America to provide additional financial support for farmers by paying significantly more for food? We all know that food is an enormous bargain in this country, cheaper than anywhere else in the world, and certainly one can build a case that additional costs to consumers for food prices would not be an intolerable burden. But there are some limits to how far one can go in that regard. We had some consumer rebellions in the 1970's as food prices rose dramatically.

Since there are very definite limits to what can be achieved with supply-management approaches, we must turn our attention to ways in which to generate additional demand for American farm products. I find a lot more satisfaction for the agricultural community, for farmers, for the government, for USDA, and for me, personally, in working on the demand side of agriculture than I do in working on the supply-management side. There is something rewarding about finding additional ways to sell American products and finding additional uses for those products.

We ought to focus domestically on finding new uses for American farm products and new products to produce. That calls for research, of course, and an investment in the future. Twenty years from now we may be growing thousands of acres of crops in this country of individual varieties or strains that are not even on our radar screens at the moment. We ought to produce in this

country what it is that will make us the most money as farmers, not what we most enjoy producing. Internationally, of course, it gets to the Uruguay Round objective of opening up markets so that we can expand our exports.

We have great potential for additional demand generation for American agricultural products if we just work on it. We are working hard at it now. I think we can do a lot more in the future. And I will certainly look forward to exploring those possibilities with you and others in the agricultural sector as time goes on.