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Agricultural Outlook Forum

Proceedings

Presented by the U.S. Department of Agriculture

February 22 and 23, 1995

Arlington, Virginia

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PREFACE

The U.S. Department of Agriculture held its first Agricultural Outlook Forum on February 22 and 23, 1995. Nearly 800 people attended the event, which was held at the Stouffer Renaissance Hotel at National Airport in Arlington, Virginia.

The Forum was the seventy-first outlook meeting sponsored by USDA. While maintaining the traditional focus on the near-term outlook for agriculture and farm commodities, the Forum inaugurated several important changes. A new emphasis was placed on the long-term horizon for the farm sector, which is well reflected in the speeches in this volume. To encourage substantive discussion of agriculture's future, USDA provided Forum participants with a report entitled "Long-term Agricultural Baseline Projections, 1995-2005," Staff Report WAOB-95-1. A copy of the report is included as an attachment to these proceedings.

The Forum was designed to encourage a lively discussion about the future, which is evident from the diversity of speakers and the opinions expressed. Speakers at the plenary sessions on the opening afternoon addressed future farm policy directions. Participants at a series of "forum" sessions on the second day of the meeting discussed the major economic and sectoral issues for the future.

Audio tapes of all sessions, and video tapes of the plenary sessions provide a complete record of both presentations and questions and answers. Readers interested in obtaining tapes are referred to the order form at the back of this volume.

Additional copies of these proceedings are available from ERS-NASS, 341 Victory Drive, Herndon, VA 22070; phone 1-800-999-6779.

GERALD A. BANGE
Chairperson
Outlook Forum Steering Committee

April 1995

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ACTING SECRETARY OF AGRICULTURE RICHARD ROMINGER
KEYNOTE ADDRESS, AGRICULTURAL OUTLOOK FORUM
Washington, D.C. -- February 22, 1995

INTRODUCTION

Good afternoon.

I am pleased to welcome you all to the first Agricultural Outlook Forum. The federal government has been doing a lot of reinventing for the last two years. So while we were at it, we reinvented the Department of Agriculture's traditional Outlook Conference.

The program has been redesigned to focus on the long-term prospects for agriculture and to become a forum on the major economic forces of the late 1990s.

The end of this century will be an important time for American agriculture. We are entering a new era for the federal government and for its role in agriculture programs -- an era of less and more efficient government.

It will be an era of new trade rules and opportunities.

We are very pleased to report today that we are revising the forecast of U.S. agricultural exports upward to a record \$48.5 billion in fiscal 1995. That is an increase of \$3.5 billion from our November 1994 forecast and nearly \$5 billion above the previous record high set in 1981. The agricultural trade balance is now forecast to be a \$20 billion surplus, up from our previous estimate of \$17 billion. The details will be released at 3 p.m. today.

This is a tremendous accomplishment for American agriculture. This good news is another example of the Administration's commitment to increasing farm income through expanding international markets. It is an economic opportunity that must be built upon through full use of our market development and promotion tools as well as domestic farm and research policy that maintains competitiveness.

The new era we are entering also will be one of progress in conservation, food safety, nutrition awareness and rural development. And the 1995 Farm Bill will be the rule book for this new era.

At USDA, we've already begun to prepare with the most massive reorganization in the Department's history. USDA is well situated to execute the policy initiatives which will emerge from the 1995 Farm Bill.

We know that we must approach everything we do with an eye on the federal deficit. And we know that we must reexamine the way government works.

USDA's reorganization is a first step. And we are now going further with the second phase of the National Performance Review when we must take a close, critical look at the federal role in all our programs.

We are fortunate to have Dan Glickman coming on as Secretary to lead us in this self-examination.

Along with continuing the reorganization of USDA, Dan will tackle the 1995 Farm Bill. He has been through four Farm Bill debates and served on the House agriculture committee for 18 years so he knows exactly what the questions are and what the stakes are.

CCC OUTLAYS

For the third straight year, President Clinton has proposed a budget to create a smaller, more effective, more disciplined government for average Americans.

Budget constraints will drive the Farm Bill. And although agricultural programs have been pared significantly beginning with the 1985 Farm Bill, Congress and the American people will look for more savings from the agriculture sector.

Like every other part of the federal government, we will take cuts in an effort to reduce the federal deficit. Therefore, the President's budget proposes a reduction of \$1.5 billion in Commodity Credit Corporation outlays to be taken over the 1998-2000 period.

Specific measures to achieve these targeted savings will be proposed soon.

CCC outlays during the 1980s reached historically high levels because of farm policy and changing world economic conditions which led to the worst farm financial crisis since the 1930s.

During most of the years from the 1930s until the early 1980s, CCC net outlays ranged from less than \$1 billion, or even net receipts for some years, up to about \$6 billion in nominal terms.

The 1970s saw low CCC outlays as exports grew rapidly and market prices were high. This situation changed abruptly in the early 1980s as export markets collapsed. CCC outlays peaked at nearly \$26 billion in fiscal year 1986.

The experience of the past decade and a half should remind both farmers and policymakers that agriculture is a very risky enterprise -- difficult to predict and control.

Numerous policy reforms, as well as an improving world economy, have led to the decline in CCC outlays since the mid-1980s.

Average annual CCC outlays are currently projected to decline from \$16 billion for the period 1986-1990 to \$11 billion for the period 1991-1995, and to less than \$8 billion for the period 1996-2000 with no change in current law.

The decline in outlays since the mid-1980s reflects the market-oriented program reforms included in the Food Security Act of 1985, as well as reductions in payment acres, mandated marketing assessments, land retirement under the CRP, and other provisions of the FACT ACT of 1990 and the Omnibus Budget Reconciliation Act of 1990. Additional cost reduction reforms were also enacted in budget reconciliation and other legislation in recent years.

Budget estimates for the out-years also reflect significant demand for farm products from expanding world income, growth in U.S. demand for food and industrial products, such as ethanol, and new trade opportunities from the North American Free Trade Agreement and the GATT Uruguay Round Agreement on Agriculture.

The estimates also reflect reduced spending for ad hoc disaster assistance as crop insurance reform is implemented.

Finally, there will be additional Conservation Reserve Program signups and extensions of existing contracts that will not only benefit the environment, but strengthen crop prices and reduce spending for price and income support programs.

Changes in programs since 1981 show the dramatic reductions in the government's budget exposure for farm programs.

For example, a typical corn producer today receives deficiency payments roughly one-third the level they would be without the reforms, based on changes in the program provisions since the 1981 Farm Bill that include a decline in target prices and payment areas as well as frozen program yields.

So the declining trend in outlays, the analyses of potential outlays had policies not been changed, and a review of the changes in program provisions all show clearly that substantial changes have been made over the past several years to reduce both budget exposure and producer dependence on the programs.

The farm support programs are prime examples of real spending reductions in the entitlement area in recent years.

Before the President released his 1996 budget, I sat down with him to talk about future agriculture policy. The results of his thinking on the subject are apparent in his budget plan. The President's budget makes a clear commitment to continuing support for American agriculture.

CHANGING FARM POLICY

So budget concerns are bringing change—perhaps substantial change—to farm policy. But cuts will be made carefully. We understand that we are not just dealing with numbers but with programs that affect people's lives. We will make our budget cuts by making good farm policy.

In developing USDA's part of the 1996 budget:

- We kept in mind that USDA must sustain a solid economy that provides opportunity for growth and prosperity for farmers, ranchers and others living in rural America.
- We kept in mind that we must ensure that Americans continue to enjoy the world's best and most affordable food supply.
- We kept in mind that USDA must ensure that food assistance is available to those in need in response to a clear public consensus that ensuring low-income people an adequate, affordable diet is a public, federal responsibility.
- We kept in mind that USDA must continue to shrink and streamline its management structure to provide more efficient service with less bureaucracy.
- We kept in mind that USDA must not forfeit the gains achieved in conservation and environmental quality.

These are the same issues we must keep in mind as we go about creating the new Farm Bill.

Tough questions are being asked about the federal government's place in farm programs. And we should ask tough questions during a Farm Bill debate.

We need to answer those questions while maintaining the integrity and security of essential farm programs.

AMERICAN AGRICULTURE

While fewer Americans live on farms, USDA's programs touch the life of every American citizen. The American food and fiber system generates nearly \$1 trillion in economic activity each year--16 percent of our gross domestic product. It is a system which accounts for 1 out of 6 American jobs. And agriculture is one of the few sectors of our economy that maintains a positive trade balance.

But we must acknowledge certain realities as we enter this new Farm Bill Debate:
NEW CONGRESS

First, our society is more urban and suburban than ever and this is reflected in the new Congress that will write the Farm Bill.

The Congress that will make agriculture policy for the rest of this century is made up of men and women who generally don't have a rural or farm orientation.

In fact, more than 75 percent of the House Agriculture Committee has never been through a Farm Bill debate.

They are more likely to question the status quo and to want change. And, they may be less aware of the symbiotic relationship between agriculture's economy and the nation's economy.

So we need to emphasize—over and over—to Congress and to the public—the connection between economically healthy farms and a safe, abundant food supply, and the Nation's overall economic health.

TRADE

Second, we are now competing in the most open global market of this century. The growth of this market and new international trade agreements will influence our domestic programs and export programs.

Getting the GATT accord signed was just a beginning. The next steps are effective GATT implementation around the world, expansion of NAFTA toward an Americas Free Trade Agreement, and a free trade agreement among the 18 nations of the Asia-Pacific Economic Community.

Export programs must position U.S. agriculture to benefit fully from the opportunities available from these trade agreements. The Clinton Administration worked hard to secure the GATT agreement, opening foreign markets where 96 percent of the world's consumers live. The Farm Bill must help U.S. producers to use these new opportunities through market development, market promotion, and activities to offset unfair competition.

SAFE FOOD AND NUTRITION

Third, public concerns are focused on food safety and nutrition. These are clearly areas where the federal government should be involved and they are areas central to the next Farm Bill.

Because we have ensured an abundant, wholesome, and low-cost food supply, U.S. consumers on average spend just over 11 percent of their disposable income on food. But low-income households spend one-third and more of their income on food.

Food assistance programs are an economic and nutrition safety net. Federal food assistance programs must be preserved to ensure that the needy are fed and that national nutrition goals and standards are not forfeited.

Nutrition education should become an integral part of all USDA food assistance programs.

USDA's food assistance programs play a part in our agricultural economy as well as an important part in the lives of one in five Americans -- many of them children. These food programs are directly connected to the farm and the market. Each dollar of targeted food assistance increases retail food spending.

USDA outlays on food stamps alone generates \$10 to \$12 billion in yearly retail food purchases. The School Lunch Program accounts for 6 percent of all fluid milk sold in the United States. Food assistance programs are certainly linked to a strong agricultural economy.

The Administration has serious concerns about the impact of this block grant approach on the health and well-being of the nation's children. Throughout their history, USDA's Child Nutrition and WIC programs have produced significant and measurable nutrition outcomes among the children who participate in them.

The programs work because national nutrition standards are established, required, and verified, and because the funding structure ensures that the program can expand to meet the increased needs that would be created by a recession or similar economic downturn.

The proposed block grant structure would eliminate both of these protections, leaving children vulnerable to shifts in the economy, and to changes in nutrition standards that could be driven more by cost considerations than children's health. For these reasons, the Administration opposes block grants for USDA's Child Nutrition and WIC programs.

While we must ensure an abundant and affordable food supply, we must also ensure that the food our citizens eat is safe. Last month, USDA proposed sweeping changes in federal meat and poultry inspection. We propose to go from a system based on sight, touch and smell to one based on scientific testing and systematic prevention of contamination. The new system will save society thousands of lives and billions of dollars.

These reforms demonstrate this Administration's strong commitment to making meat and poultry safer for consumers. Food safety will remain a key function of USDA.

The proposed regulatory moratorium contained in H.R. 450, in contrast, will not move us forward. It will not result in a government that works better and costs less. It will, in fact, smother important regulations such as the Hazard Analysis and Critical Control Point (HAACP) systems approach.

ENVIRONMENT

Fourth, we must continue our sound stewardship of America's land and natural resources. USDA is responsible for encouraging good land, water, and forest practices on much of the nation's land.

More than half our employees work in the area of natural resources and environment. It's a mission we take seriously.

Research, education, technical, and financial assistance, and land retirement programs need to be used collectively to develop low-cost, effective solutions to environmental problems.

We must continue to rely on voluntary programs but we must also encourage local identification of problems and solutions.

Budget pressures make it more important than ever to focus conservation efforts on the most critical soil, water, wetland, and wildlife issues.

Agriculture must continue its tremendous record of response to public concerns for conservation and environmental protection.

At the end of last year, USDA took several actions regarding the Conservation Reserve Program that will benefit taxpayers, producers and the environment.

The CRP, which provides annual rental payments to farmers who retire environmentally sensitive cropland, has enrolled 36.4 million acres reducing soil erosion, improving water quality, expanding wildlife habitat, enhancing wetlands, and encouraging tree planting.

The Administration has announced that it intends to modify and extend CRP contracts and improve the targeting of the CRP to the most environmentally sensitive acres.

By giving CRP participants an opportunity for early release from their contracts, we will be able to enroll new, more environmentally sensitive acres. This will increase the cost-effectiveness of the program.

The use of easements will enable very long-term retirement of the most fragile lands without the need for concern that the land will ultimately return to production.

RURAL AMERICA

Fifth, rural development policy should be an integral part of the 1995 Farm Bill.

Given limited resources, we need to focus rural development on persistently poor counties; areas facing adjustment problems; and individuals and communities lacking clean, running water and adequate housing.

Rural America must have equitable access to economic infrastructure to compete. This means equitable access to adequate credit and access to modern communication systems symbolized by the information superhighway.

The three rural Empowerment Zones and 30 Enterprise Communities announced by the Clinton Administration in December were an important first step.

The gap between rural and urban America has narrowed significantly since commodity and rural programs began in the 1930s. However, rural areas continue to face economic disadvantages, including low population density, remoteness, and a high proportion of low-wage jobs.

Approximately half a million rural households lack basics, such as clean water, indoor plumbing, and adequate shelter. The Farm Bill is an important opportunity to address broader needs of America's rural areas.

RESEARCH

Finally, our Farm Bill deliberations must recognize the need for USDA to continue to emphasize research, education, and economic analysis.

We must provide a sound scientific basis for all that we do and be able to continue the remarkable gains in agricultural productivity that have made food and fiber so affordable and which can help solve our environmental problems, and improve farm profitability.

Effective research is fundamental to solving problems from food safety to sustainability, increasing efficiency and competitiveness, and opening new economic opportunities.

CONCLUSION

Traditionally, making agricultural policy has been a bipartisan endeavor, and I see no reason for that to change.

Secretary-designate Glickman and I look forward to working with the ag committees under Senator Lugar and Representative Roberts. They are both experienced leaders who know agriculture, and I believe we can develop a bipartisan farm policy that is in the best interest of American agriculture.

The President means it when he says that the tax cut he has proposed will let the middle class share fully in the economic recovery he has already begun. But he will not support any effort to cut taxes unless it's paid for, and he will not let tax cuts explode the deficit, as they did in the 1980s.

In discussing the Middle Class Bill of Rights in his State of the Union address, the President described the test he will give every policy, every piece of legislation, that comes before him. The test is quite simple:

Does it advance the interests of average families? Does it promote their values? Does it build their future?

If it does, the President will support it; if it does not, he will oppose it.

As an experienced agriculture policymaker, Dan Glickman has said that farm programs have been a pretty good deal for the American people: a stable, secure supply of food at reasonable prices.

As a veteran legislator, he has said that agriculture is not and should not be immune to change.

The 1995 Farm Bill will have to pass the President's test: Does it advance the interests of average Americans? Does it promote their values? Does it build their future?

We have our work cut out for us as we enter this Farm Bill debate.

But I know members of both parties have a common goal: We all want to build a strong America—and I believe that can only happen if American agriculture is strong.

I welcome your questions.