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Review of Agribusiness Issues and Future Perspectives

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Like most notable milestones, we conceived the *Journal of Agribusiness* in crisis. As stated in the editorial policy, the original purpose of the *Journal of Agribusiness* was to commission available expertise to address the most urgent issue of the times. We accomplished this through both oral presentations at meetings sponsored by the Agricultural Economics Association of Georgia, and additional papers commissioned by the editorial council. We published Volume 1, No. 1 of the *Journal of Agribusiness* in the spring of 1983. The *Journal of Agribusiness* has transcended into the 1990s with Volume 8, No. 1 published in the spring of 1990. This article will briefly review the issues addressed by the *Journal of Agribusiness*. Front burner issues often diminish in urgency over time, but others will surely surface.

We can define the term agribusiness to embrace either a limited or wide range of economic activities on both sides of, and including, primary agriculture. The limited definition embraces only those business enterprises that deal directly with farm, forest, and fishery producers. The wider definition includes those involved in inputs into agricultural production; finance, machinery, buildings, chemicals, and energy. Also, agribusiness includes firms storing, transporting, processing, fabricating, and distributing farm, forestry and fishery products. Finally, agribusiness includes parts of governments (including public policy), and financial institutions serving the agro-food-fiber-kindred complex. Agribusiness does not include activities as far downstream as food and beverage service, clothing, and furniture retailing.

The focus of this paper is a brief summary of issues addressed by the *Journal of Agribusiness* from 1983 through 1990. In perspective, the 1980s followed a decade of euphoria in agriculture and closely allied business. Commodity and food prices, production, exports, and cash flow were riding upward trends through the 1970s. Heavy herd liquidation and declining cattle prices, especially during 1973-1978, were the major exceptions to

the conditions responsible for this optimism. This favorable environment induced over investment and over expansion in agriculture and allied activities on a global scale. Moreover, many farms and businesses were highly leveraged. Thus, short falls in cash flow in much of agribusiness dominated the mid 1980s, leading to financial crisis and bankruptcies.

The Role of Government in Agriculture and Agribusiness

Government in agriculture and allied activities has been a long standing issue. Farm subsidies, tariffs, and non-tariff barriers to international trade remain issues at the GATT (General Agreement on Tariffs and Trade) talks in 1990. Most likely, government intervention in the agrofood system will prevail around the globe well into the 21st century.

Nevertheless, many economists in industry, academia and the body politic argue that government is the major problem of agriculture rather than the solution. Equally vocal are those that argue that food security is far too important for the whims of the free market. Highly developed nations, with primary agriculture accounting for less than 10 percent of the gross domestic product, provide the most protection for farmers. Some lesser developed countries, with a major dependence on agricultural exports, are highly vocal champions of the free market. Third world countries are the strongest proponents of food security. Thus, the issue of the proper role of government remains unresolved in the last decade of the 20th century.

International Trade in Agricultural and Food Commodities

International trade has long added variety and spice to the diets of the affluent. Yet except for war, it was not until the 1970s that the United States entered into a rapid expansion of export markets. The globalization of food markets came into vogue during the 1980s. All farmers and agribusinesses must therefore compete on a global scale as the 20th century winds down. Most likely this trend toward a global market will continue into the 21st century.

Comparative advantage and specialization are the forces that undergird all trade including trade across national borders. Exploitation of comparative advantage can benefit people of all nations. Rapid advancements in transportation and communication make possible the exploitation of comparative advantage on a global scale. International trade will spawn opportunities, but it will also create adjustment problems. It is the role of economists to identify and aid entrepreneurs in exploiting opportunities. Likewise, economists have a responsibility to identify adjustment problems and help those adversely affected to find alternatives.

Changing markets, evolving technologies, and ever changing political climates, from a global perspective, will provide economists with a wide range of research topics. We can enhance societal benefit by providing insight and understanding of developing trends on a global scale. Inadequate family income, an inadequate marketing infrastructure, and political ineptness are the major constraints on the goal of a well-fed world population. Technology and resources used wisely are fully adequate to meet this goal. It is the role of economists to guide the relaxing of constraints on global trade in foodstuffs.

Instability and Risk Management in the Agriculture-Food System

The agrofood system has long been prone to a high degree of instability and uncertainty. The impact of instability can be either increased or mitigated as the globalization of the food system progresses, depending on the response of governments. Nations that invoke price controls and supply management (export surplus products) transfer the price instability to international markets. Conversely, globalization allows the shift of supplies from food surplus nations to those with short-falls thus dampening the impact of variable supplies in some countries.

Farmers and agribusiness face instability and uncertainty by defining the risk or chance of some undesirable outcome such as negative cash flow. They will realize unexpected windfall gains over an extended period. The degree of instability provides guidelines to set up financial reserves. They can use futures and options markets to shift risk to others, but at a cost. Businesses, including farms, can survive and prosper by devising strategies to bridge short-falls in revenue flow. Economists can provide a useful service by providing guidelines for successful risk management.

Changing demand is also a source of instability in both domestic and export markets. Economists can play an important role by monitoring and anticipating market trends. Uncertain results of business decisions will continue to provide research and education opportunities and responsibilities into the indefinite future.

Competition in the World Food-Fiber System

The 1980s farm financial crisis focused a renewed attention on the competitive position of the US in world markets. The financial crisis also extended into agribusiness — particularly farm-inputs. Some interpreted a loss of market share in some important sectors as a declining competitive position. However, we can attribute part of the problem to US policy which provided an umbrella for competitors through price support (loan) programs.

Later, the 1985 Food Security Act reduced loan rates but supported farm income through target prices. Farmers received deficiency payments to make up the difference between market prices and target prices. By permitting market prices to fall to world price levels, the 1985 Act permitted the United States to regain part of the lost market share, reducing the urgency of the competitiveness issue. Nevertheless, enhancing competitiveness in world markets will remain an important goal of research, education and federal policy. Also, the improvement of marketing efficiency, organization, and infrastructure should receive increased emphasis in future research.

Changing Markets and Evolving Technologies

Changing markets and evolving technologies are two major forces creating investment and employment opportunities, as well as adjustment problems. There will always be a delicate balance among food availability, food needs, and food demand. Food needs do not enlarge markets until accompanied by adequate buying power. Most of the third world's food problems stem from inadequate buying power, inefficient marketing systems, and inept political systems rather than a deficiency in technology or resources.

Economists are responsible for monitoring and anticipating changes in markets. We can attribute these changes to population growth, shifting income levels and distribution patterns, preference shifts, health concerns, and time constraints on food preparation. We can mitigate adjustment problems by an accurate reading of basic market trends.

Evolving technologies, with emphasis on biotechnology, have dominated the last quarter of the 20th century. However, most of the economic impact of research and development will not occur until well into the 21st century. Much of the research, education, and development of the 20th century contributed to social, economic and political stresses—especially labor displacement. Inadequate education and skills for alternate employment of those displaced in agriculture contributed to the urban ghettos and attendant problems. Concurrent research and education to expedite economic-social adjustment should be a part of future endeavors in biotechnology, electronics, robotics, and other technical research. We can address efficiency and equity issues concurrently as we approach and enter the third millennium. Technical research will not resolve the economic, social and political issues.

Rural Economic Development and Leadership

Following a decade (1970s) of rural revitalization, absolute and relative decline of the rural economy reemerged as a central concern. Most pro-

nounced was the financial crisis in the farm and kindred sectors. In addition, the energy producing sectors, and small scale manufacturing—especially textiles—entered a period of depressed prices, revenue flow, and rising unemployment. Thus, rural development or revitalization moved to the top of the list of issues of both individual state and federal governments.

As the 1980s wound down, financial recovery in the farm and textile sectors somewhat diminished the urgency of the rural development issues. However, rural development and rural leadership remain important areas of research and education. The hinterlands will continue to be important to the economy, primarily as a source of raw materials. Farming, mining (including oil extraction) and forestry provide materials are vital to the urbanized economy. The 21st century will likely usher in an era of strong linkages between the rural and urban sectors. There will be less distinction in economic and social issues between rural and urban residents. We can expect transportation and communication developments to continue to weld rural and urban areas into one highly integrated society.

Education and skills necessary for modernized farming, mining and forestry activities will rival requirements of urban occupations. The “hayseed” image of rural America will have faded into history by the end of the 20th century.

International Trade Liberalization

International trade in agricultural and food commodities surfaced as the major issue of the Uruguay Round under GATT (General Agreement on Trade and Tariffs). Agricultural economics research began to focus on the impacts of trade liberalization which is simply the removal or relaxing of barriers to trade. These constraints include tariffs, import quotas, export levies, and nontariff restrictions such as varying quality standards. Farm subsidies also distort comparative advantage and competitiveness.

Many consider free trade to be a major contributor to rising economic affluence world wide. Comparative advantage is the underlying force in trade. Specialization and attendant economies of size contribute to rising efficiency in production. However, specialization could not exist without trade. Ever larger markets provide opportunities to exploit the gains of comparative advantage.

Although the society benefits from free trade, trade restrictions enrich special interests—at least in the short run. Nations, through their federal governments, protect their farmers and infant industries for alleged security reasons. Future research and education should address the trade-offs among special interests, national security, with emphasis on food, and the well-being of society.

Issues of the 1990s

Time seldom resolves issues but it does mitigate the impacts and shifts emphasis among issues. In the agrofood sectors, environmental, health, and safety issues have risen to the top of the priorities. These contain sub-issues such as sustainable agriculture, and a reduction in the use of chemicals to produce food. Moreover, the agrofood issues must share the spotlight with such major national and international issues as government and trade deficits, and budget crunches at both state and federal levels.

No one knows what the future holds, but history teaches that limits will occur on resources for research and education, and priorities will change. The crumbling of the Soviet Bloc shifts the emphasis from military strength to economic strength. This includes the basics of food, clothing and housing for the poor. The 45-year (1945-1990) cold war has ended in a victory for the democracies. This victory came not as a result of military superiority. Rather, largely because of a food-fiber system in the democratic societies that delivered goods and services in an efficient and timely manner. Research and education in sectors other than the military should receive a high priority for future funding.

The 21st century will usher in an era of rapidly advancing technologies. Thus, the bounds of potential wealth will expand to previously unknown limits. Then, equity in the distribution of this bounty will or should become the central issue of governments. Unbridled free enterprise breeds corruption and concentrates wealth in the hands of the few. A fairer distribution of wealth should become a central issue of research and education and government policy. Research focused entirely on increasing productivity will compound rather than resolve economic inequity, social turmoil, and political ineptness. The twin goals of efficiency and equity should receive equal emphasis in future research and education.

We should direct research, education and government policy to achieve the implied, if not stated, societal goals. These include; 1) rising economic affluence for the masses not just the privileged few, 2) social tranquility or the absence of social turmoil, 3) environmental quality including preservation of the purity of air, water and natural beauty, 4) political stability including the absence of war and threats of war, and 5) personal exuberance including good health and the perception of personal well-being. These societal goals contrast sharply with the stated goal of military superiority of the US, and government policies of the 1980s that distributed wealth upward to the wealthy few.