11-30-1977

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MAJOR ISSUES FACING AGRICULTURE AS OUR NATION MOVES TOWARD A DOMESTIC AND INTERNATIONAL FOOD AND AGRICULTURAL POLICY

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Address given at the University of Minnesota and Minnesota Food and Agribusiness Industry Food Seminar, Minneapolis, Minnesota November 30, 1977
It is a pleasure for me to speak this evening before such a distinguished group of agribusiness and academic representatives, all of whom have a common interest. Twenty years ago, that interest would have been denominated as "agricultural policy". Today it would be called "food policy", which presumably is a broader term. Food policy is usually defined to encompass the interests of everyone in the production and marketing process from producer to consumer. It is by no means limited geographically, but encompasses people and firms who are involved - directly or indirectly, domestically and internationally - in the food business. Allegedly, this broad definition is required because those who worked with agricultural policy a decade or two ago were inordinately producer oriented. Perhaps that charge is justified in some instances, but in my judgment it was the exception rather than the rule. Most agribusiness firms and most agricultural policy experts have always sought to balance the interests of all those who are intertwined in the food chain. Nevertheless, "food policy" is with us for a long time to come, so it behooves all of us to become actively involved in developing that policy.

Hence, let us turn to some of the major issues of the day. I will attempt to concentrate on those questions which are of direct interest to the agribusiness world, but which also have a research or extension component of significance to the academic world. For purposes of organization, I will deal first with issues that are international in scope, and then those that are primarily
domestic in their orientation.

I. International Food Issues

A. Food Reserves - As you know, international food stocks were drawn down in the 1972-74 period to what many would construe as dangerously low levels. This stimulated an enormous interest in the subject of world hunger. And it also stimulated concern about food prices, both here and abroad. The simplistic answer offered by most spokesmen on this question is that we ought to have an international food reserve. Perhaps these spokesmen are correct, but most of them scarcely understand the question, let alone the answer!

If one is to have an international food reserve, one must first decide whether its basic objective is one of food security, (i.e., having ample food available to provide a nutritionally adequate diet to the people of the world), price stability, or both. If food security be the sole objective, a reserve need not be terribly large. Even in those worrisome days of three or four years ago, food supplies were ample to meet the basic needs of everyone in this world. Where there people suffering from starvation and malnutrition at that time? Of course, but this is also true today, when food supplies are abundant, and it was true a decade or two ago as well. This is a problem of distribution, rather than of supply. As serious as that problem may be - and it merits the attention of all of us - it is not a problem of food security.

Most people who advocate creation of an international food
reserve really have price stability objectives in mind, though they cloak their arguments in terms of food security. The reason for this is obvious; opposing a food security program is like challenging God and motherhood! Constructing an argument on price stability grounds is, on the other hand, another matter entirely. Many people are wary of price stabilization programs, for they have hardly had a record of unblemished success in the past. The International Wheat Agreement, one of our first attempts at an international food reserve, collapsed about ten years ago, and its pricing provisions have been inactive since that time. We sought to achieve price stability throughout our entire economy a few years ago when the Cost of Living Counsel came into being. But it was a short-lived institution, and its record was mixed at best.

At the moment, discussions of an international food reserve are underway in London, and it is possible that a new agreement will be negotiated in 1978. But there are lots of questions to be answered before that agreement is finalized. Permit me to pose a few of them for you.

First, a decision must be made as to whether the agreement is to include price stability objectives. If so, a secondary but critical decision must be made as to whether the agreement will have minimum and maximum prices (the position of the European Community, for example) or simply price or quantity guidelines or triggers (the U.S. position). If a minimum and maximum price are to be defended, the spread between those two prices is likewise of critical importance. If that spread is relatively wide, only
limited price stability will be achieved. But it may be possible
to carry out those limited objectives with a relatively small
buffer stock or reserve. If, on the other hand, the difference
between the minimum and maximum price is narrowed, greater price
stability can presumably be achieved, but at a much higher cost.
Defending a narrow price corridor will require a large buffer
stock, otherwise the risk of failure will be greatly increased.

A related but critical question in any international food
reserve is "Who picks up the tab?" In times of surplus, exporters
assume this financial burden as a matter of course. There is
no motivation for importers to do so, so long as supplies are
readily available from a number of sources. Since surpluses have
been the dominant situation during the post-World War II period,
importers argue that exporting nations should bear most of the
financial burden of a formal food reserve. Exporters, on the
other hand, argue that times are changing, population is increasing,
and food security could become the world's greatest challenge
over the next two or three decades. If so, importers should bear
most of the cost of a formal food reserve. Thus, the negotiating
lines are drawn, and only time will tell how this financial
burden will be distributed.

Management of a food reserve is also a key question. Is this
function to be centralized, or will each participating nation
provide its own management? In either case, are management decisions
to be automatic, in accordance with the rules of the agreement, or is
there to be some discretion exercised in building and releasing
stocks? Are the lesser developed nations to become participants in
such a program and, if so, how are their financial obligations to be met? Will a reserve encompass only food grains (i.e., wheat, rice, or both), or will it also include feed grains? Can an international food reserve be operated successfully, without the cooperation of the Soviet Union? If not, can the Soviets be induced to participate by the use of carrot and/or stick provisions of the agreement? Are there to be penalties for noncompliance with the agreement? If so, how are those penalties to be enforced?

One could pose a number of additional questions on food reserves, but the above should suffice to indicate that this is a most complex and intricate question.

B. International Trade - We are now in the midst of the Tokyo Round of Multilateral Trade Negotiations in Geneva, Switzerland. This is a ninety nation exercise, the largest of its kind in the history of the world. Though innumerable issues are involved, a few are worthy of particular attention in the context of international food policy.

One of these, for example, is what kind of "special and differentiated treatment" is to be provided for the lesser developed nations under the rules of the GATT (the General Agreement on Tariffs and Trade)? As you know, foreign aid is no longer a popular program here in the United States. Nor is it terribly popular in many of the other developed nations of the world. How then do we meet our humanitarian obligations to the less fortunate nations and peoples of the world? Our usual answer is "more trade, less aid". The LDC's have responded by saying "Fine, but that is meaningless rhetoric unless you are
prepared to open your markets to us". What specific actions are we, the developed nations, prepared to take on behalf of our less fortunate brethren? Are we, for example, prepared to restrain our own use of export subsidies, but permit the LDC's to use export subsidies at will? When we apply "safeguard actions" against an influx of foreign imports, are we prepared to exempt the LDC's from such actions? When we design a "voluntary restraint program" for beef imports, are we prepared to treat the LDC's differently from an Australia or a New Zealand? When a tariff formula is implemented in the Multilateral Trade Negotiations, are we prepared to make deeper than formula cuts on products of particular interest to the LDC's? Are we prepared to participate in international commodity agreements on a whole host of products, knowing that the LDC's wish to use those agreements to raise the international prices of their raw materials? Are we prepared to bear a significant share of the cost of maintaining buffer stocks that are established under international commodity agreements? Are we prepared to extend duty free treatment on a whole host of agricultural and non-agricultural commodities under the Generalized System of Preferences (GSP) program?

All of the above questions must be answered by our negotiators, and the negotiators of other developed nations, over the next twelve to eighteen months. These issues are of immense importance to the entire world, for billions of dollars of trade are at stake. The Geneva negotiations could well have a more significant impact on U.S. agriculture than anything else that takes place in this country or abroad during the next twenty or thirty years. What a
fertile field this is for academic research as well. Predicting the domestic and international impact of these potential changes in the structure of international trade is an enticing but tremendously formidable task.

C. Market Development - Aside from what might occur in international negotiations, we still have an immediate short-run interest in expanding U.S. agricultural exports. No one in the agricultural community is comfortable with the present level of carry-over stocks that we have in this country. Farm prices are inordinately low, and we need to take whatever actions are feasible to correct the situation. Obviously, one way of relieving the economic pressure on our agricultural sector is to expand exports. This can be done through: (1) combined governmental-private sector initiatives in market development; (2) expanded use of CCC Credit; and (3) increased commitments under P.L. 480, the Food for Peace Program. Secretary Bergland is cognizant of these possibilities, and has begun to respond to them. He recently announced that CCC Credit has been increased from $750,000,000 per year to $1.5 billion, and that market development funds in the Foreign Agriculture Service will also be increased. This is good news, and hopefully the Food for Peace allocations will also be expanded.

Though these short-term actions are most appropriate, it would be wise to examine the long-term implications of such programs to U.S. agriculture. Are they beneficial? If so, what kind of benefit-cost return do they provide? Where government funds are involved, how does the return on those funds compare to expenditures made on
our basic domestic farm programs? P.L. 480, for example, involves a combination of grant and loan programs. Should there be more grants and fewer loans? Or vice versa? The loans are long-term, at extremely favorable interest rates. Should the term be lengthened or shortened? Should the rate of interest be increased or decreased? Do P. L. 480 programs inordinately depress agricultural production in the recipient countries? Is this advantageous or disadvantageous to U.S. farmers? Should we be using P.L. 480 funds to increase agricultural production in the lesser developed recipient nations, as is present policy, or will this simply make them competitors with U.S. agriculture in the future? P.L. 480 programs in Korea, Taiwan, and Spain have evolved into excellent commercial markets for U.S. farmers. Can this success be duplicated in other lesser developed nations of the world? If so, should we be pinpointing our P.L. 480 programs toward that market development end?

We might also ask ourselves whether we can improve our commercial sales performance throughout the world. Can we capture an increased share of the world market from our competitor exporting nations? If so, how do we go about doing so? Is it simply a matter of becoming more efficient in our own production and marketing processes, thereby enhancing our international competitiveness. Or is there more to it than that? Do we need to improve our marketing techniques? Do we need more sales representatives around the world, and a higher level of market intelligence? Do we know how to adjust to the cultural requirements of a purchasing nation? Can we achieve the salesmanship successes with agricultural products that the Japanese and others have achieved with a whole gamut of industrial
and commercial goods? Do we have the kind of institutional framework that will permit us to dramatically expand our international sales efforts?

A decade ago, the above questions might not have been considered crucial to the economic well-being of the United States. At that time, only four or five percent of our gross national product was accounted for by international trade. Though that figure has doubled over the past several years, international commerce is still not a life or death proposition for us. We can maintain a relatively high standard of living for our people even if we are singularly unsuccessful in our international sales efforts. Nevertheless, those questions are extremely critical to U.S. agriculture, which is far more dependent upon international trade for its well-being than is our industrial sector. And they are becoming more and more important to the nation as a whole, with trade becoming an increasingly pervasive element of our economic system. Therefore, it behooves us to search for answers to these questions at a very early date.

II. Domestic Food Issues

Enough on the international side. Let us now turn our attention to a few of the most significant domestic food policy issues of the day.

A. Basic Farm Legislation - Though the 1977 Farm Bill has now been signed into law, and though it builds on previous legislation passed in 1970 and 1973, it is still not well understood. Groups such as yours can play a major role in achieving an increased level of understanding of the legislation, and the political-
economic tradeoffs that are encompassed therein.

In my judgment, our basic agricultural policy framework is sound. I would not trade it for that of any other nation in the world. The interests of both producers and consumers are balanced in the system of target prices, loan rates, set aside programs, etc. that are built into our present law. But there is still a lot of unrest. The unhappiness of producers is evidenced by the proposed farmers' strike for December 14. And let food prices increase by 1 or 2 percent in a given month, and we will have four column headlines on that issue in all our major newspapers. So a tremendous educational and informational job remains to be done.

With producers, the major challenge is to explain that basic income protection is to be achieved through target prices and not through loan rates. We simply cannot afford to raise loan rates to a point where we lose our international competitiveness. Were we to make that mistake, the results would be devastating. We did make that mistake in the 1950's and 60's, and the results were devastating - but farmers have short memories!

From the producers' standpoint, we also have the question of dealing with indexes. For years, the basic farm policy goal of most farmers was to achieve parity. Anyone with a smattering of knowledge on the subject knows that parity is an outmoded concept, but it has taken half a century to work our way out of that bind, and we still have not fully done so.

"Cost of production" seems now to be in vogue as an index alternative to parity. But it too has its shortcomings, particularly
when one attempts to include fixed costs such as land in the
definition. If cost of production is to be used as a base for
determining target prices in the future, it will have to be
refined a whole lot more than has been done to date.

One of the principal educational challenges in the domestic
farm policy arena lies with achieving an understanding of the
numerous trade-offs that are required, and how, when, and where
they are made. For example, target prices are a trade-off between
producers and taxpayers. The higher the level, the greater the
income protection for farmers, but the potential price tag is
obviously higher. Consumers are a part of that trade-off too,
for higher target prices presumably will stimulate increased
production by farmers and lower food prices for consumers, at
least in the long run. Loan rates involve an even more complex
set of trade-offs, because of their international implications.
If and when our loan rates exceed world market prices, we tend
to isolate ourselves from that market. To the extent we do so
by increasing our own stocks, supply elsewhere is reduced (at
least in the short run) and food prices will tend to rise. Thus,
consumers in other nations are adversely affected by our policies,
and so are U.S. consumers unless the government is prepared to
move the stocks into the market place at a loss. If that is done,
taxpayers become involved in the trade-off since they must bear
the losses. Taxpayers are involved too in bearing the storage
costs. Producers are temporary beneficiaries, for they can sell
their product at no less than the loan rate, which presumably is
above the equilibrium market price. Then there are short run and
long run trade-offs. High loan rates in the U.S. are likely to stimulate additional production in the U.S. and elsewhere, leading to surpluses a few years down the road, with a concomitant decrease in farm prices and perhaps (but with less assurance) also a decrease in food prices. A set-aside program or other production restraints may, of course, be used to reduce the pressure on target prices and loan rates. If production is successfully restrained, the market price of agricultural products should rise, thereby reducing or eliminating deficiency payments to farmers that might otherwise be necessary. Effective restraint will also reduce or eliminate government holdings of grain under the loan program. Taxpayers will benefit from such restraint, particularly if compliance with the restraint program can be achieved at little or no cost. Less food will be produced, however, so food costs presumably will be higher. Consumers, therefore, are likely to have higher food prices and lower taxes. Whether they will come out better or worse in the trade-off will obviously vary from one household to another.

Will it not be exceedingly difficult to explain all this to a housewife? Of course, but it is worth doing. In a democratic society such as ours, one must assume that a higher level of knowledge will lead to more reasonable and rational policy making.

B. Consumer Relations - Consumer relations are an inherent element of the agricultural policy trade-offs that I have just discussed. But there are other aspects of your relationship with the consumer sector that demand attention too. Food is a bargain in the United States; it has been for many years, and will probably be
so for years to come. But that point has not been well made. Most housewives are just not convinced, even when they are told that on the average only 16 percent of their family budget goes for food. Somehow we need to raise that level of understanding too. Just think what it would mean to the agricultural sector of this country if American housewives willingly adjusted their spending priorities and boosted food to the 20 percent level.

Consumers are also concerned about health risks today. They have had a constant bombardment of material on the risks of carcinogens, hormones, additives, cholesterol, and a whole host of similar items, all of which are health related in some way. The issues have been sensationalized in the press, and many of the studies have been either inconsistent or of questionable validity. One must always wonder about the accuracy of interpolating laboratory results involving test animals to a real world situation involving human beings. Nevertheless, we in agriculture are sometimes too wont to dismiss these concerns out of hand, rather than facing up to them. We are often too much on the defensive, and insufficiently responsive to the legitimate concerns of our fellow man. It is imperative that we meet these issues head on, with full recognition that these are concerns of customers of ours, which therefore must be satisfied.

In some areas of consumer interest, the pendulum of response has gone all the way to the other extreme. In other words, we have probably begun to do too much for consumers, rather than too little. For example, we may eventually have so much background material on consumer labels that the American housewives will become totally
confused. Those housewives are intelligent people, and they have unquestionably been underinformed, if not misinformed, in the past. But their time has a value too, so let us not inundate them with information that will be of little value in their purchasing decisions.

Finally, those of us in the agricultural sector need to learn how to communicate effectively with consumer groups. We spend far too much time talking to each other about how efficient we are, and what a magnificent production and marketing system we have. But how many of us have communicated directly and openly with the Consumer Federation of America, Consumers Union, or any of the other major consumer advocate groups. There is a lot for us to learn in understanding consumers, whether they be militant or not, and still more for us to learn in communicating our story to them. As Assistant Secretary of Agriculture Carol Foreman has often said, it would be well for farmers, consumers, and even the illusive "middlemen" to spend more time emphasizing their mutual interests rather than their points of conflict.

C. The Middleman - In general, both producers and consumers stand high in public opinion in this country. Both are able to engender a great deal of political support for their views and in response to their problems. The "middleman" on the other hand, seems always to be the villain of the piece. Whether he be a processor, a transporter, a distributor, or the performer of any other function in the marketing process, he is chastised when food prices rise. The middleman is criticized for being inefficient, monopolistic, predatory, and the perpetrator of
nearly every economic ill known to our capitalistic system. In the vast majority of cases, this criticism is totally unfair and ill-founded. But it is a fact of life nevertheless, and the agribusiness entities involved have a most serious image problem which must be confronted.

Without question, we have the best agricultural marketing system in the world. It can be improved, of course, but so can anything. This has been an amazingly innovative segment of the food chain, characterized by excellent responsiveness to consumer demands. Processing, packaging, and distribution techniques have all changed tremendously over the past several years. Yet, for some reason, all these improvements, innovations, and imaginative new techniques are rarely attributed to the "middleman". Our processing and marketing firms simply have not received credit for their accomplishments. That too is an educational process, but it must be coupled with still further advancements in the future. Like everyone else, consumers want to know what we have done for them today! That means that we must continue our research and development efforts in all phases of the marketing process - new packaging techniques, such as boxed beef, new means for extending shelf life, such as irradiation; improved acceptability of preservation techniques, such as freezing; increased transportation efficiency through improvements in the regulatory process (the backhaul issue, for example), etc.

D. The Fast Food Phenomenon - The most spectacular splash on the food marketing scene in recent years has come from the fast food industry. This has been an incredible development,
with enormous implications for all of us. Those implications can be turned into exceedingly profitable opportunities if we adjust to what has transpired and will continue to transpire. But we will have to adjust quickly and decisively, or the world will pass us by. In my judgment, the fast food business is not a short-term fad. It very likely represents a permanent and induring shift in the food consumption habits of the American people. Perhaps even more importantly, that shift is already making itself known in many other countries.

The shotgun approach to production and marketing simply will not work in the fast food sector. The demand at the retail level is for large volumes of particular food products, produced and processed in accordance with detailed specifications. This is the rifle approach, of course, and those of us in the food chain will have to respond with pinpoint accuracy to our customers' needs. Those who do so will have an opportunity to share in the spectacular earnings of one of our most dynamic economic sectors. Those who are unable to do so will likely find themselves subject to a shrinking market in years to come.

E. New Technology - I would be remiss if I were to close a session such as this without emphasizing the continued need for technological advances in the production and marketing sector. I have already alluded to the latter, but let us not forget the former even though we are presently in a surplus situation. The energy crisis will adversely affect agricultural production in this country and elsewhere for many years to come. We must adjust to that distasteful fact in a variety of ways. Some of those ways
are already at hand. Minimum tillage is perhaps the most obvious. But there are others; for example, we already know how to produce crops with a lot less irrigation water than has typically been applied. And we certainly know how to harvest crops for ensilage, rather than expending vast amounts of energy to dry them. But there are undoubtedly additional advancements in both production and management techniques that could further reduce the consumption of energy on the farm. The same will undoubtedly hold for such usage in the processing and marketing areas of the food chain. Finally, there is a great need for improved technology and management in the marketing decisions of farmers. Due at least partially to our earlier agricultural policies, farmers have always concentrated primarily on production and secondarily on marketing. The latter was not very difficult or challenging, of course, so long as the government was the major buyer, and this was done at essentially a fixed price. Now, however, the government is less involved in the marketing decisions of individual farmers, and this makes it essential that those farmers learn how to evaluate market conditions, hedge their risks, etc. There are already many techniques available - forward contracting, use of the futures markets, pooling, etc. But we have just scratched the surface with these. In the language of the computer world, we are just in the first generation of agricultural marketing models. Both the academic world and the business world have a major role to play in moving to a second and third generation of farm marketing techniques. I expect that we will see a tremendous evolution in this entire area over the next five or ten years. If we do this job
well, the entire food chain will operate more effectively than it does today.

III. Conclusion

There are many other issues which could be covered. For example, the whole subject of nutrition is receiving increased emphasis at the Federal level today. So is the matter of increased competition in all our industries. We have talked little about improving conversion ratios in our livestock and poultry sector. Much more could be said about featherbedding and other labor practices that reduce efficiency and hamper technological change. But I believe we have touched on most of the major issues of the day. If agricultural businesses and academic institutions in Minnesota and elsewhere will work together on problems and issues such as these, we should be able to promise the people of this nation and the world a constantly improving food industry.

Good luck!