

AGRICULTURAL POLICY FOR TEXAS

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AGRICULTURAL POLICY FOR TEXAS

Texas is the second or third largest state in the United States in terms of the value of agricultural production, depending on the year and the mix of commodity prices, yields and incomes. Agriculture is the second largest income source for Texas with roughly 15 percent of its jobs and 12 percent of its gross state product coming from agricultural sources. Because of agriculture's economic importance, its use of scarce natural resources, the importance of food and fiber and the implications for rural communities, Texas needs an agricultural policy.

There is, however, no overt statement of Texas policy regarding agriculture. The purpose of this briefing paper is to begin the process of articulating the possible dimensions of an agricultural policy for Texas. The paper is designed as a discussion piece from which policy makers could make decisions on the scope, constraints, objectives and provisions of Texas agricultural policy.

While the 1998 drought served to emphasize the fragility of Texas agriculture and the importance of having a Texas policy that responds to its needs, this issue is not new. Over the past three years, Texas agricultural leaders have come together seven times in workshops that have focused on the identification and prioritization of issues confronting the state's agriculture. This paper draws on the results of these leadership workshops, including:

- # The Farm Bill and Beyond Summit Conference: June 27-28, 1996; Lubbock.
- # Environmental and Natural Resource Policy For the 21st Century Summit: November 14-15, 1996; Kerrville.
- # The Rice Summit Conference: February 1996; Houston.
- # Cross Timbers Agriculture in Transition Summit: May 18, 1998; Eastland.
- # Summit on Financing Texas Agriculture in the Future: May 27, 1998; Austin.
- # Drought Policy Task Force: September 22, 1998; Austin.

Texas Agricultural Forum: October 15, 1998; Lubbock.

Texas Agriculture Council: October 29, 1998; Austin.

Reports from these workshops are utilized to identify priority issues and policies for Texas agricultureBmost of which surfaced several times.

Scope of Agriculture

One of the first issues confronting policy makers will be that of defining the scope of agriculture. Scope decisions will have a lot to do with what policies are considered to be Agricultural.@ The seven workshops indicate that Texas leaders view agriculture's scope broadly to include:

In addition to traditional crop farms and ranches, agriculture includes feedlots, dairies, poultry growers, nurseries, horses and commercial breeding of pets.

Inputs used in production are part of agriculture. Some of these inputs are products of agriculture (seeds, feeds, organic fertilizer, hay, etc.), while others are products of agribusiness (credit, agricultural chemicals, farm equipment and buildings, etc.).

Agribusiness firms involved in marketing, processing and retailing farm commodities are part of agriculture. This includes the food sections of supermarkets and convenience stores, restaurants, textile mills and commodity traders.

The natural resource base on which agriculture depends for production is part of agriculture.

International trade in farm and food products, including exporters, importers, transporters and other market intermediaries, is a part of agriculture.

Rural communities, where farmers and ranchers do business and where many live, are a part of agriculture.

Rural infrastructure (electrical utilities, water systems, dams, irrigation systems, communication systems) is part of agriculture. Much of this infrastructure was initially developed to serve the needs of farms and ranches.

Constraints on State Agricultural Policy

There are several constraints on what any state can do in the agricultural policy arena. Most of these constraints are economic in nature. Others result from preemption by either the Federal government or by multinational institutions.

Economic and Multinational Constraints

The biggest and growing constraint on both state and federal agricultural policy involves the economic forces of globalization. Since World War II, the benefits of freer trade have become increasingly widely accepted. Institutions such as the General Agreement on Tariffs and Trade (GATT), part of the charter of the World Trade Organization (WTO), now govern national policies to move in the direction of freer trade. They are complemented by a growing number of regional trading blocs such as the North American Free Trade Agreement (NAFTA) and the European Union (EU). Blocs such as these appear to be expanding in scope as Eastern European countries move toward membership in the EU and negotiations proceed for expansion of NAFTA into a western hemisphere Free Trade Agreement for the Americas (FTAA).

Freer trade means that farm prices are increasingly determined by international forces of supply and demand. Whereas, previously, national farm policies supporting prices above world market levels were protected by import quotas and tariffs, successive Multilateral Trade

Negotiation (MTN) Rounds have reduced barriers to trade. The largest steps toward freer agricultural trade were taken in the Uruguay Round which, in addition to creating WTO, mandated reductions in farm subsidies, conversion of import quotas to transparent reduced tariffs and minimum access to markets. The Uruguay Round Agreement effectively eliminated long-standing US price support protective policies such as Section 22, and led to a conversion and decoupling of target price deficiency payments from market prices into lump-sum contract payments.

While freer trade policies remain controversial and will continue to be subject to political tests, they have transformed the nature of Federal agricultural subsidies, globalized the process of US price determination and exposed the US food and fiber system to the greater risk inherent in a global trading environment.

Federal Constraints

While the nature of Federal policies regarding agriculture has evolved toward less emphasis on supports tied to market prices and more emphasis on consumer and environmental concerns, its objectives remain basically unchanged. They include:

- # Expanding farm production and increasing efficiency through technological change (in cooperation with land grant universities) and the development of rural infrastructure.
- # Stabilization of farm incomes through the various forms of direct transfer payments conforming with the provisions of GATT and WTO.
- # Expansion of agricultural exports through relatively low loan rates, marketing loans and market promotion, targeted export assistance and export credit programs.

- # Conservation and preservation of resources placing continuing emphasis on the preservation of fragile, highly erodible soils, endangered species and wildlife habitat enhancement, but showing increased concern for the preservation and conservation of clean water and air.
- # Providing various forms of food assistance for those in poverty, emphasizing children, single parents, and the elderly.
- # Ensuring the safety of the food supply through regulation of the use of pesticides in food production (including monitoring imports for residues) and application of science to inspection of fresh and processed foods for food-borne disease.
- # Protection of plants and animals from pests and disease by chemical, biological and genetic means, including extensive breeding programs and banks for the preservation of genetic material and diversity.
- # Providing domestic and international market intelligence regarding production projections and market factors affecting price.
- # Protecting agriculture from risk of natural disaster by direct assistance, supporting the establishment of crop insurance programs, protecting the integrity of futures and options markets, and, more recently, supporting the development of risk management strategies.

In addition to these programs, macroeconomic policies affect the taxes paid by farmers, interest rates and exchange rates, which may have as much impact on farm incomes as all farm programs combined. Federal transportation policies facilitate the movement of products interstate to domestic and international markets. Concurrently, states are constrained by the US Constitution from promulgating policies that interfere with the movement of goods and services in

interstate commerce. Efforts of states to protect and enhance returns to their farmers and ranchers frequently have run afoul of the interstate commerce clause of the Constitution.

State Agriculture Policy

Texas agriculture leaders recognize the constraints placed by economics, multinational organizations and the federal government on what state policy could reasonably be expected to do. In the workshops, they readily compartmentalized issues and policies into those being primarily the role of the federal government versus the role of the state. Policy opportunities for Texas agriculture result from:

- # The reality that many potential state policies enjoy **Agreen light@** status from a WTO perspective. **Agreen light@** status has been given to programs designed to protect the environment; to foster technological change through research and education; to protect food safety and to make markets operate more efficiently. A caution: What regulations are **Agreen light@** is fluid, subject to interpretation and may fall into the category of sanitary and phytosanitary barriers to trade, if carried to the extreme.
- # Policies that make farmers, ranchers and agribusinesses more competitive by enhancing their efficiency in production, processing and marketing generally enjoy **Agreen light@** status. It is well established that the first adopters of technological advances and market changes realize benefits in terms of growth, employment and profits.
- # Policies that facilitate the ability of farmers, ranchers and agribusinesses to cope with naturally occurring conditions of adversity generally enjoy **Agreen light@** status. Texas is a high risk state agriculturally because of the combined volatility of commodity prices,

drought, hurricanes, floods and hail. Texas can provide tools to cope with risk, directly or indirectly.

Objectives of Texas Agricultural Policy

Embodied in the results of the workshops/summits is a set of objectives which could become the basis for Texas agricultural policy. These objectives could include:

- # Enhancing the comparative advantage of commodities for which Texas has a chance of being competitive in a freer trading, globalized market environment. This initially requires an assessment of where Texas agriculture can be competitive and implies some difficult choices in the allocation of research and extension resources.
- # Helping farmers, ranchers, agribusinesses and rural communities strategically plan for their operations to deal with the realities of increased risk encompassed in freer market conditions. In the new economic environment, the realization of Texas= comparative advantage involves enhancing the ability of its agricultural system to cope with risk.
- # Helping farmers, ranchers and agribusinesses capture a larger share of the value added by the production, processing and marketing of agricultural products. Such value-added potentials should consider both domestic and export market opportunities.
- # Helping farmers, ranchers, agribusinesses and rural communities adjust to changes in production patterns implied by switches in comparative advantage conditions. Despite actions to improve Texas= comparative advantage and develop higher-valued niche markets, some commodity segments could experience substantial downsizing. Assistance could be provided as an aid for transition to new production patterns and related agribusiness as including the infrastructure needed to support them.

- # Providing farmers, ranchers, agribusinesses and rural communities with public sources of information on which to base decisions. Information is a public good in that it levels the playing field for making informed decisions. Ironically, however, public support for improved information systems has declined at the Federal level. Texas could improve the comparative advantage of its producers by offsetting this decline in Federal support.
- # Considering available resources and assuring that Texas agriculture is involved in resource policy decisions. The four critical resources to Texas agriculture are land, water, air and humans. Farmers and ranchers have always supported conservation of land and water resources as well as education to improve the ability of people to cope with problems. Texas agriculture needs to be directly involved in state and federal decisions relating to use of its resources.
- # Reducing or offsetting the tax and/or regulatory burden on Texas farmers and ranchers. Taxes and regulations raise costs with the greatest adverse impact being on independent farm and ranch operations which includes most of Texas agriculture. These taxes and regulations also impact agribusinesses.
- # Offsetting the direct economic impacts of natural disasters such as drought, floods, hail and/or other regionalized events that exceed the capability and/or provisions of existing federal disaster and insurance programs. While most visible, this direct method of income support to mitigate the impact of natural disasters is likely expensive and difficult to equitably administer. Determining the best means of accomplishing this objective requires care in analysis and planning.

It will be noted from these objectives that price stabilization and enhancement are not included in the list. This is the case because there is little, if anything, that Texas can do to influence the level of price. In fact, there is little that the Federal government can do to influence price, without adversely influencing the US position in international markets. Likewise, there is no objective that implies subsidies to enhance farm income other than in response to regionalized national disasters. In addition to being very expensive, increased subsidies run counter to WTO policies. The resulting conflict is best resolved at the Federal level.

Content of Texas Agricultural Policy

Policy objectives imply programs to implement. The starting point for program development involves an entity to evaluate alternative policy proposals, and an agricultural leadership advisory committee.

Policy evaluation can either be done internally through agencies such as the Texas Department of Agriculture (TDA), or externally by an independent third party. The Agricultural and Food Policy Center (AFPC) currently performs an independent third-party evaluation function for the US Congress. It could effectively perform the policy evaluation for Texas government.

A standing Agricultural Leadership Advisory Committee could be helpful in terms of problem identification, policy formulation and implementation. Such a committee could be most effective with staggered terms to assure bipartisan representation of a cross section of Texas agriculture and agribusiness.

The results of the seven workshops/summits suggest consideration of the following state programs under each of the previously identified objectives:

- # **Enhancing comparative advantage** places an emphasis on research and extension education programs. Particular attention in the workshops focused on the development of production systems for livestock, improving farmers' ability to strategically plan and manage risk, expanded use of integrated pest management (IPM), boll weevil eradication, development of alternative crops, dealing with aflatoxin, genetic modification for stress resistance and improving rice yields.
- # **Risk management strategies** emphasize education in the science of strategic planning. Several workshops suggested the expansion of the Texas Agricultural Extension Service (TAEX) FARM Assist program statewide. Research was suggested on means for increasing the risk-reducing effectiveness of crop insurance and on the potential for expanding insurance concepts to livestock, dairy and poultry production. Specific concern was expressed for the lack of insurance for pasture/forage.
- # **Value added strategies** are designed to increase Texas agribusiness' share of processing, marketing and exporting. It is recognized that substantial margins frequently exist from improved coordination and involvement within the market channel. Workshop emphasis was placed on helping producers engage in individual or group actions designed to add value. The formation of value-added alliances with agribusiness was mentioned. Research to identify priority value-added opportunities also was discussed. The state's role in facilitating and financing such ventures was identified.
- # **Adjusting to changing market conditions** is recognized as being one of the realities of freer markets as comparative advantages switch. Downsizing particular commodity segments can be assisted through research and education on alternative enterprises. In

particular instances, re-training and/or investments in new agribusiness infrastructure may be required. In addition to increased value-added opportunities, workshop leaders indicated that the state needs to give increased attention to new production options and diversification opportunities. It was noted that these are more important tools for managing risk in an era of freer trade. In addition, changing market conditions create a need for more and better quality information.

Providing public sources of information on which decisions can be based was recognized as being more important. Reduced federal support for information was considered to be a problem that could potentially be addressed at the state level. Particular deficiencies were noted in the quantity and quality of livestock pricing information.

Conserving resources, particularly water, was identified as a major concern. Assistance in developing water management systems at the farm level was discussed in several of the workshops. Brush control was recognized as an important means of water conservation. While enhancing the quantity of resources received attention, assistance was sought in reducing the level, complexity and costs of regulation. Uniformity of regulation nationally and internationally was recognized as being essential for competitiveness. The preservation of the rights of private property was viewed as being important to farmers maintaining competitiveness. Education was recognized as being a key to conserving resources and coping with the threat of increased regulation.

Reducing tax and regulatory burdens was a priority item in each of the workshops. The focal points of concern were on property taxes, air quality, water quality and endangered

species. All of these are viewed as being threats to the rights of private property. Equally important was the need to make regulations equal across the states and the nation.

Offsetting direct adverse impacts of natural disaster was important, particularly with major disasters occurring in two of the past three years. While it was recognized that there are limits on what Texas can do in areas such as insurance and disaster assistance, concern was expressed that there was not enough being done to reduce production risk through research education and livestock feeding programs, perhaps in cooperation with the federal government.

The reader undoubtedly noted that some programs satisfied more than a single objective, suggesting a higher percent level for state policy action.

While these dimensions for state government involvement in agricultural policy are not exhaustive, they indicate that there is indeed a role. As such, it will likely be in the state's best interest to strategically develop a plan that can effectively deal with Texas policy issues as they arise.