Competitiveness in Agricultural Policy

Richard Gady*

Never in our history has the potential for loss in competitiveness been so important for U.S. agriculture—both for producers and for agribusiness. Yet this fact is not fully recognized in any policy arena that relates to agriculture. Five key developments will affect our industry and its competitiveness during the upcoming decade: (i) the globalization of agriculture, (ii) the structure of industry, (iii) nutritional concerns, (iv) environmental and food residue concerns, and (v) biotechnological advanced and agricultural commodity substitutes.

GLOBILIZATION OF AGRICULTURE

The impact of globalization manifests itself in several ways on American agriculture. The sharp fluctuations in exchange rates have affected U.S. competitiveness. The weaker dollar over the last three years has priced U.S. agricultural products more favorably in world markets and stimulated demand for our products. However, the same weaker dollar has made the price of U.S. business cheaper to the Europeans and Japanese and encouraged foreign investment in U.S. agribusiness. Today, foreigners own about 25% of the U.S. input industry and 20% of U.S. agricultural processing. The weaker dollar has also made it more difficult for U.S. companies to justify foreign investment. Consequently, large European or Japanese agricultural companies are expanding globally and speeding up the trend toward concentration of agriculture, worldwide.

Secondly, the emergence of huge worldwide trading blocks is making world trading more competitive. The unification of the European Common Market by 1992 will make the EC a more formidable trading entity in world agricultural markets. The reduction of intra-EC barriers and more uniformity of regulations are encouraging rapid concentration of agribusiness there. The emerging financial strength of the Pacific Rim countries is creating both a rapidly growing market and strong competitors in world markets. The relaxation of centralized control in the Eastern Bloc may make that area a growing market, as well as a better competitor in world markets. Thus, globalization is likely to increase the pressure on U.S. agriculture to be competitive in world markets, as well as provide expanding opportunities for those exporters who do compete.

INDUSTRY STRUCTURE

U.S. agribusiness companies have been merged. Old, familiar names like Nabisco, Foods, Phillsbury, Beatrice, Armour, and no longer private entities. This is not by accident, well beyond the desire to be big. Consider how processors must compete for limited large supermarket chains. The food industry is over 2000 new food products each year. required to develop, introduce, distribute, national brands are huge. Product liability can easily bankrupt smaller companies. The demand to meet regulatory standards can be prohibitive for smaller, single-plant companies. Requirements to capital, the ability to attract superior people, and national distribution requirements are challenges that American companies are facing. Economies of scale to compete efficiently. Even world markets are still providing opportunities for American products in niche markets.

A second structural change is the emergence of hostile takeovers and leveraged buyouts (LBOs) of ownership structure. To the extent that many of the ownership changes are financed by excessive levels of debt, there may be a tendency to sacrifice R&D, research and investment for short-term survival. LBOs may bring into question the ability of U.S. agribusiness to compete long-term. There would appear to be policy implications in this area.

NUTRITIONAL CONCERNS

Consumers appear to be much more aware of the relationship between health and a better diet. A myriad of public organizations such as the American Heart Association, National Academy of Sciences, FDA, American Cancer Society, and the Senate Select Committee on Nutrition, to name a few, are encouraging the flow of nutrition recommendations to the public. The public appears to be responding, with concerns about fat, cholesterol, and fiber. For example, over 26% of the population is on a diet, up from 17% in 1981.

Household structure also continues to change. Demographics are changing. Today 62% of families are non-traditional, one-spouse families or have no children. The percent of working women is growing, up from 42% in 1970. The traditional sit-down dinner has faded and “grazing” has become more common. The traditional family is becoming much older. Consequently, consumers are demanding more takeout, more baked and fewer fried foods, smaller simpler portions, more ethnic foods, and more snack type foods. The percent of working women is near 60%.

Household structure also continues to evolve and change. Today 62% of families are non-traditional, one-spouse families or have no children. The percent of working women is growing, up from 42% in 1970. The traditional sit-down dinner has faded and “grazing” has become more common. The traditional family is becoming much older. Consequently, consumers are demanding more takeout, more baked and fewer fried foods, smaller simpler portions, more ethnic foods, and more snack type foods.