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Report of the Governor's Task Force on Agricultural Development

December 1988

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# Report

## Governor's Task Force on Agricultural Development

### Foreword

The forces influencing the Texas economy are changing rapidly. Population shifts, market demands, global competition, and emerging new technologies are combining to prompt a re-examination of the state's economic base, its strengths and weaknesses, and the charting of a new course for the future. Agriculture, one of Texas' largest industries, figures prominently into any state action agenda for economic development. This report deals with the recommendations of a state-wide Task Force that examined the critical issues and opportunities for Texas agriculture.

Governor Bill Clements established the Governor's Task Force on Agricultural Development in his Executive Order WPC-88-6 dated April 21, 1988 (Appendix I). The Task Force was asked to (1) review the recommendations of earlier task forces and committees on agriculture reporting to Governor Clements and to develop an outline for discussion and further study, (2) develop proposals for legislation for the next session of the Legislature relevant to implementing a comprehensive agriculture program, and (3) study policy alternatives and issues important to Texas agriculture prior to Congressional consideration of the next federal farm bill.

The Executive Order established five committees of the Task Force. The Task Force membership, and their assignment to individual committees is shown following this foreword. The Chairmen of the Committees were members of an Executive Committee that provided planning and leadership and acted on behalf of the full Task Force in final review of the report. The Committees were:

1. Rural and Economic Development
2. Agricultural Research and Technology
3. Taxation and Finance
4. State Planning
5. Federal Issues

The Task Force met three times. Its inaugural meeting was held on May 16, 1988, where Governor Clements issued the charge and Deputy Secretary of Agriculture Peter Myers addressed the Task Force. The second meeting was held on June 8, 1988 and the third meeting was held on July 19, 1988. The Executive Committee met separately on September 23, 1988 to make final review of the draft report.

Three public hearings were held by the Task Force at Lubbock, Dallas, and San Antonio. Seventy-three individuals presented testimony, some on their own behalf, others on behalf of the many farm, ranch, and commodity organizations of the state. The public testimony produced more than 240 issues that were referred to appropriate committees of the Task Force for further study.

There were important contributions made by a number of advisors to the Task Force, including several key legislators such as Senator Bill Sims, Representative Dudley Harrison (Chairman of the House Agriculture and Livestock Committee), and Representative Dick Waterfield. The Advisors, who participated fully in the meetings of the Task Force, are listed in Appendix II.

In addition, there were a number of invited speakers addressing both plenary sessions of the Task Force and individual Committees. These individuals are shown in Appendix III. The Task Force expresses its appreciation to all these individuals for their active participation.

Technical advisors to the Task Force were provided by the Texas Agricultural Experiment Station, the Texas Agricultural Extension Service, and the College of Agriculture of The Texas A&M University System (TAMUS). Dr. Neville P. Clarke, Director of the Texas Agricultural Experiment Station, coordinated the activities of the technical advisors. An advisor was assigned to each Committee and assisted in providing technical background and expertise as requested and documented the deliberations and conclusions of the Task Force members in this report. The report was edited and prepared in final draft by the technical advisors and staff at TAMUS. The Technical Advisors are listed in Appendix IV. The Task Force expresses deep appreciation to these individuals who were helpful at each juncture of the activities of this group.

The Task Force is pleased to submit this report to Governor Bill Clements with the hope that it meets the needs of his office.

**Jerry Harris**  
Chairman

## Membership of the Governor's Task Force on Agricultural Development

Jerry Harris Lamesa, Texas	Chairman
Dr. Neville P. Clarke Texas Agricultural Experiment Station	Executive Committee
Dr. Perry Adkisson Texas A&M University System	Executive Committee
Clark Willingham Dallas, Texas	Chairman, Rural Economic Development Committee
J.D. Woods, Jr. Katy, Texas	Chairman, Research & Technology Committee
Jimmy Powell Ft. McKavett, Texas	Chairman, Taxation & Finance Committee
Billy Bob Brown Panhandle, Texas	Chairman, State Planning Committee
S.M. Truc Waco, Texas	Chairman, Federal Issues Committee
Allen Anderson Raymondville, Texas	Rural Economic Development Committee
Robert L. Parker Paris, Texas	Rural Economic Development Committee
Don Smith Sulphur Springs, Texas	Rural Economic Development Committee
John Birdwell Muleshoe, Texas	Research & Technology Committee
D.V. Guerra Edinburg, Texas	Research & Technology Committee
Bill Skov Clint, Texas	Research & Technology Committee
Frank Barrett Hereford, Texas	Taxation & Finance Committee
Othal Brand McAllen, Texas	Taxation & Finance Committee
Dave Nix Lamesa, Texas	Taxation & Finance Committee
Jane Ann Stinnett Lubbock, Texas	Taxation & Finance Committee
Jay Anderson East Bernard, Texas	State Planning Committee
Libo Hinojosa Mercedes, Texas	State Planning Committee
James Neal Pearsall, Texas	State Planning Committee

**Lonnie "Bo" Pilgrim**  
Pittsburg, Texas

**State Planning Committee**

**Dale Hunt**  
Garwood, Texas

**Federal Issues Committee**

**Bob Josserand**  
Hereford, Texas

**Federal Issues Committee**

**Worth Matteson, III**  
DeKalb, Texas

**Federal Issues Committee**

**Keith Spears**  
Vernon, Texas

**Federal Issues Committee**

## Executive Summary

The food and agriculture system in Texas is the second largest industry in the state. Receipts at the farm gate are only the beginning of the economic impact of this vast complex of interrelated activities. Taken in the aggregate, the food and agriculture system of Texas generates an economic activity in excess of \$70 billion per year. The system provides more than 20 percent of all the jobs in Texas. The provision of food and fiber is vital to every Texas consumer; every urban dweller is involved in agriculture. Agriculture is the number one source of renewable wealth, drawing on the rich and abundant natural resources of the state.

Texas agriculture stands today at the crossroad of problems and opportunities. Problems arise from more than half a decade of substantial recession for some elements of the industry, from an inherently higher risk environment for production agriculture, and from an under investment in the processing or adding of value to the raw products at the farm or ranch gate.

Opportunities for Texas agriculture more than offset the problems and, with proper planning and direction, the outlook for this element of the Texas economy can be substantially brighter in the decade of the nineties. Opportunities include a major advantage in climate and natural resource base, an available work force, excellent managers with growing sophistication, and the possibility of introducing new knowledge and technology that will allow the establishment of new agricultural industry and a restoration of health and vigor to established operations.

Bringing opportunity to bear on problems requires development of an agenda and action plan for the Governor and other state leaders.

Recognizing this need, Governor Bill Clements appointed the Governor's Task Force on Agricultural Development, a group of 26 agriculturalists occupying positions of statewide leadership in the industry. He charged the group to develop an agricultural action agenda for Texas.

The Task Force has developed a Five-Point Plan For Agricultural Development. The plan includes 61 specific actions recommended for the Governor's office and other parts of state government. Of the critical actions recommended by the Task Force, 15 are identified in this summary because of their special importance and potential for results. The individual chapters of the report which follows provide specific and more detailed analysis and conclusions of the five committees of the Task Force.

The five point plan with its 15 critical actions are shown on the following two pages.



# Five-Point Plan for Agricultural Development

1. **Create an improved environment for agricultural and agribusiness growth and economic development in rural areas of Texas through new and expanded initiatives in the Texas Department of Commerce, and greater coordination among state agencies.**
  - **Support creation of and funding for an agribusiness and rural economic development section in the Texas Department of Commerce** with specific responsibilities for promoting rural economic development opportunities, developing and maintaining information databases, and coordinating appropriate state and federal agencies.
  - **Encourage and assist the Joint Select Committee on Worker's Compensation** to restructure the rules and procedures to eliminate lump-sum payments, increase the authority of the Industrial Accident Board, allow self-insurance for financially qualified business, allow coverage that offers deductibles, and other such changes and improvements.
  - **Support legislation that expands the agriculture exemption** to include intrastate movements of food and fiber products.
  - **Support legislation that encourages tort reform** to reduce the burden of liability risk to agriculture and rural businesses.
  - **Promote and support emphasis on conservation and management of quantity and quality of water resources** as provided for in the current Texas Water Plan.
  - **Support appropriations by the Legislature for an expansion of the state's agricultural science and technology base** to enhance economic development. The new resources should be targeted toward technologies that will add value to raw materials produced in the state, spawn new science-based industries, conserve the state's natural resource base, and increase productivity. This strategy should include the establishment of academic centers of excellence in areas critical to entrepreneurial interests and enhanced competitiveness for federal and industry funds.
  - **Create and fund within the Texas Department of Commerce a challenge grant program.** This new program would stimulate the development of new science-based industry by requiring a 3:1 matching dollar component for start-up costs.
  - **Advocate that the Texas congressional delegation pass legislation that would include economic considerations in all environmental regulations.**
2. **Expand agricultural research and technology transfer programs in Texas to capitalize on the opportunities provided by emerging market forces and changing environmental conditions.**
3. **Increase Texas' impact at federal level to influence agricultural, regulatory, and economic policies.**

- **Work with the Texas Congressional delegation to bring more federally sponsored laboratories, institutes, and federal/state centers for agricultural research and life sciences to the state.** The Institute of Biosciences and Technology at Houston and the Plant Stress Laboratory at Lubbock are two current opportunities. These institutions will forge new relationships within the state's scientific community, and provide national leadership in their respective missions.
  - **Work with the Texas Congressional delegation to support development of IRS rules and regulations that implement the passive provisions of the 1986 Tax Reform Act.** This will provide incentive for farmers and ranchers to diversify their operations and encourage the investment of private capital into agriculture.
  - **Work with the Texas Congressional delegation to amend the tax code to reinstate income tax averaging and, thereby, recognize the volatility of income involved in farming and ranching.**
4. **Establish new value added agricultural industries and businesses in Texas through concerted efforts to identify opportunities and encourage their development.**
  5. **Expand state initiatives to foster greater international trade in agricultural commodities and value-added food and fiber products.**
- **Support legislation to amend the Rural Industrial Development Act to allow the Rural Industrial Development Loan Fund to become the Texas Rural Economic Development Fund.**
  - **Support the Texas Agricultural Diversification Program to improve access and efficiency in generating new opportunities for agriculture.**
  - **Encourage dialogue on the potential for creating a trade agreement with Mexico, comparable to that signed with Canada, with the U.S. Trade Ambassador and the Departments of State, Commerce, and Agriculture.**
  - **Regularly monitor GATT trade negotiations and obtain appropriate evaluations of the impacts on Texas producers.**
  - **Support the expansion of the exports of farm commodities, through programs such as export enhancement, and work to avoid export market disruptions such as embargoes.**

The following sections of the Task Force report provide a detailed summary of the findings and recommendations of each of the five committees. Each section provides a background and delineation of the problems and issues of concern, identifies important strategic objectives to guide planning, and presents specific actions which are recommended to achieve the objectives. With no specific priority intended, these reports are presented in the following sequence: Rural Economic Development, State Planning, Agricultural Research and Technology, Taxation and Finance, and Federal Issues.

# Agriculture in Perspective

Texas agricultural products are the basic necessities of life — food, clothing, and shelter — utilized by everyone in the state. The Texas economy is large and rapidly changing. Agriculture is also evolving in response to many broad technological, environmental, and market forces. Before presenting the results and recommendations of the Task Force, it is appropriate to describe agriculture and agribusiness in Texas and the forces which must be recognized in planning for the future.

Texas ranked third among states (after California and Iowa) in cash receipts from agriculture in 1987, with estimated cash receipts at the farm/ranch gate of approximately \$10.6 billion. Food and agriculture account for approximately 20 percent of all jobs in the state, providing a total economic activity of more than \$70 billion per year. Taken in the aggregate, food and agriculture represent the second largest industry in Texas after oil and gas and related petrochemical industries. It also makes a significant export contribution to the nation's balance of payments.

Texas agriculture is unusually diverse as a result of a correspondingly diverse state geography. More than 60 economically relevant commodities are grown in the state with major opportunities for new crops and diversified agriculture. Texas is highly dependent on ground water for irrigation; a resource which becomes more precious as municipal and industrial needs increase each year. Relatively unpredictable and often extreme weather conditions add substantially to the risk associated with agriculture in Texas.

The largest commodity in the state is beef cattle. The largest agronomic crop is cotton. Texas ranks first in the nation in sales of cattle and calves, sheep and wool, goats and mohair, cotton, spinach, value of farm real estate, number of farms and ranches, total acres in farms and ranches, and total livestock on hand; farm financial assets total about \$64 billion. Texas has 160,000 farms averaging 838 acres.

While Texas agriculture is dynamic and progressive, hard times have fallen on many of its traditional parts. Texas agriculture may now be in its most rapid state of transformation. Some elements of the industry have regained momentum from the recession of the first half of the decade, other crops and some regions of the state remain substantially depressed. Some crops and regions are overly dependent on federal farm programs for survival, a situation that must be remedied through development of a more competitive position for Texas crops in the national and international marketplace.

Generating this improved position will require discovery and use of improved technology and management that will reduce the cost of production, create products with greater consumer value, and enhance post-harvest shelf life. Texas' position will be enhanced by enlightened policies on trade, taxation, transportation, and environmental regulation. An important concept in the overall strategy for agriculture is the fact that a relatively small increment in unit economic activity for very large volume industries (commodities or products) can have as great or greater impact than the spawning of an entire new small industry. It is not suggested that either opportunity be overlooked, but that both be kept in mind.

A major opportunity to expand the Texas economy lies in the area of agribusiness, the off-farm/ranch activities related to agricultural production, including the supply of production inputs and services as well as food and fiber processing, manufacturing, transportation, and trade. Significant portions of the state's finance industry also involve agribusiness.

The economic impact of agribusiness is about 9 percent of the total value added to the Texas economy; the national average is 20 percent. This large difference means that too much of Texas' agricultural processing and input-supply production takes place outside the state. In terms of new development, a 1 percent increase in value added agribusiness would add about \$2.2 billion in total economic activity in Texas. An increase from the current 9 percent to the national average of 20 percent would add more than \$24 billion to the state's annual economic output.

Major breakthroughs in the sciences basic to agriculture offer new opportunity not only to enhance agricultural productivity in Texas, but also to spawn a series of new biologically based agribusiness enterprises that will parallel the development of other new industries such as those based on micro-electronics.

Agriculture in Texas and elsewhere is moving rapidly toward more sophisticated higher technology production and marketing methods. Such change creates opportunity. As new technologies emerge, successful business investment will be made by those who first adopt the innovation — either in its production or its use. Future success in “high-tech-agriculture” depends upon the development of high technology in production, processing, and marketing and upon the creation of a technical, financial, and business climate for applications. Texas provides an expansive market for early adoption of new technologies in numerous crop and livestock areas, providing the catalyst for larger export markets nationally and internationally.

This report delineates priority actions that can be taken to help coordinate federal, state, and private sector activities to produce accelerated agricultural development in Texas.

# **Rural Economic Development Committee Report**

## **Introduction**

Rural economic development consists of efforts to develop and diversify the economic base of rural (non-metropolitan) areas to promote business stability and expansion and encourage job creation in rural Texas. Such development is essential to Texas agriculture because of the mutual interdependence among agricultural production, agribusiness, and other rural businesses and services. Rural development has received increasing emphasis in recent years as the interrelationships between agriculture and rural areas have become apparent and the impacts of the downturn in the farm economy on rural communities have become evident. In this section of the report, the Rural Economic Development Committee's evaluation of the issues underlying the importance of rural development efforts, the strategic objectives and goals for such efforts, and its recommendations for actions to achieve these objectives and goals are described.

## **Background**

Texas agriculture and rural communities are interrelated and interdependent. These communities provide the locus for many industries that provide inputs essential to agricultural production and offer extensive opportunities for off-farm employment, particularly among producers operating small farms.

With the 1980s decline in farm income and in income from other natural resource-based industries, many rural communities in Texas have suffered losses in their employment base and in their populations. U.S. census bureau estimates show that the state's non-metropolitan counties experienced net outmigration of more than 38,500 persons between 1984 and 1987. Of the 84 counties in the state with 25 percent or more of their work force employed in agriculture, 77 percent were experiencing net outmigration by the mid 1980s. In the heavily agricultural panhandle and south plains regions of the state, more than 60 percent of all communities were showing population decline by 1986.

Reduced economic activity and population decline in rural areas have also resulted in increased service and fiscal problems for rural areas. Because of the decline in natural resource-based industries such as agriculture and gas and oil production, many of the state's counties have experienced severe declines in their tax bases. These fiscal conditions, coupled with reduced service populations and declining income bases in rural areas, have led to the closing of numerous public service facilities, such as rural hospitals, and also to severe financial stress for many local school districts and other governmental jurisdictions.

Concerted economic development is needed to reverse this trend. Unnecessary barriers to such development must be eliminated. For example, individuals in rural areas are often unaware of which public services are available to them for developing the management expertise, financing, and marketing skills necessary for economic success. Even when the existence of assistance is known, the federal, state, and local agencies providing services are numerous and the differences among the types of services provided by such agencies are difficult to identify. At the same time, the opportunities for development in rural areas are often not adequately known by industries that might wish to locate in a rural locale and by the public sector agencies that seek development opportunities for the state. Equally restricting is the relatively limited research emphasis and base of research information available to assist public and private entities in identifying the elements likely to promote successful development.

In addition, for some entrepreneurs, the funding necessary to assess the feasibility of a proposed development is unavailable, and for a few businesses, the problems of obtaining adequate capital limit the opportunity for them to produce and market their products. In yet other cases, existing regulations and governmentally induced costs for doing business are limiting the growth and development of businesses in rural areas in Texas.

## **Strategic Objectives and Recommended Actions**

To encourage rural economic development in Texas, the committee recommends seven actions to achieve four objectives. Central to the objectives and actions recommended is the intent of increasing

the efficiency and effectiveness of existing organizations and services having economic development missions in rural areas in the state while creating a minimum level of new services and programs. In pursuing these actions, the committee believes that it is essential to recognize that not all development efforts will be successful. High rates of failure among small businesses, such as those that predominate in many rural areas, are likely to continue. Population decline will probably continue in some areas, and further consolidation of services in rural areas will probably be necessary. It is also necessary to recognize that rural economic development and diversification must come primarily as a result of private sector efforts. The potential economic opportunities in rural areas in the state can best be identified and developed through the actions of creative individual entrepreneurs. Public sector support for rural economic development must be highly selective and targeted at economically feasible developments based on private sector initiatives.

## **Strategic Objective I**

**Develop new value added, agricultural processing and other businesses aimed at developing the natural resources of rural Texas.**

### **Critical Issues**

Rural areas in Texas provide numerous opportunities to develop new value added agricultural and other businesses. This is particularly true if opportunities related to the strong agricultural bases of such areas are more effectively utilized to increase the amount of processing of agricultural products done within Texas and if nontraditional industries such as recreation and tourism are more effectively promoted.

### **Actions**

To encourage the development of new value added agribusinesses and other businesses in rural Texas, the Committee recommends the following actions:

1. Governor should support legislation to amend the Rural Industrial Development Act to allow the Rural Industrial Development Loan Fund to become the Texas Rural Economic Development Fund.
  - the fund should continue to be administered by the Texas Department of Commerce.
  - the program should allow for funds to be utilized to expand the Food and Fiber processing industry.
  - the program should include emphasis on increasing international trade and markets.
  - the program should be expanded to allow for loans to be made to enterprises in communities of a population up to 50,000.

## **Strategic Objective II**

**Promote appropriate coordination among agencies involved in the provision of technical assistance and economic development services in rural areas in Texas.**

### **Critical Issues**

A large number of agencies and organizations provide services aimed at increasing economic development in rural areas. These include the Farmers Home Administration, the Texas Agricultural Experiment Station, the Texas Agricultural Extension Service, the Texas Department of Agriculture, public and private utilities, chambers of commerce, and numerous others. Unfortunately, the availability of such services is not well known by public or private entities in rural areas. In like manner, the economic development needs of rural areas are often not sufficiently understood or promoted by federal, state and other entities charged with promoting general economic development. Finally, rural development involves forms of development beyond those with an agricultural base, and the need to extend and diversify the economic base of rural areas must be recognized and encouraged. To do so requires rural development concerns to be included within the state's overall economic development programs and planning processes.

## **Actions**

The committee recommends continued support for existing rural economic development programs such as the Texas Agricultural Extension Service, the Farmer's Home Administration, the Texas Agricultural Experiment Station, and similar agencies. To promote greater emphasis on rural economic development within the state's overall economic development program, the committee recommends:

1. The creation and funding of an agribusiness and rural economic development division in the Texas Department of Commerce with specific responsibilities to develop and diversify the economic base of rural areas, to promote business stability and expansion, and encourage job creation by:
  - working with local and state entities to identify businesses that may be looking to expand or relocate, especially targeting the food and fiber processing industry. The Office of Community Initiative would help to develop incentive packages to assist in the negotiating of the relocation or expansion.
  - promoting economic development opportunities available in rural areas in Texas among business and industrial developers and state and federal agencies through activities such as an annual rural economic development fair.
  - developing memoranda of agreement to assist in coordinating other state agencies involved in agribusiness or rural economic development and marketing.
  - participating with the Office of Community Initiative in the Texas Department of Commerce in developing and maintaining information databases that would be available to communities and individual entrepreneurs for rural economic development.

(NOTE: Also recommended by the State Planning Committee.)

2. The Governor should appoint a person with an agricultural and/or agribusiness background to the Texas Department of Commerce Governing Commission.

## **Strategic Objective III**

**Maintain and expand existing businesses and services in rural Texas, particularly those essential to agricultural production and processing.**

### **Critical Issues**

Many existing rural businesses are under stress because of the decline in the agricultural economy and in other natural resource industries in Texas. If these businesses are to survive and expand so that agricultural producers and other rural residents can obtain inputs for production and critical services within reasonable distances from their farms, ranches, businesses, and homes, barriers to their development must be removed and opportunities for expansion enhanced. This involves the removal of unnecessary regulatory burdens, improved opportunities for management and vocational education and training for rural business operators and other rural residents, and the maintenance of critical services in rural areas.

### **Actions**

To maintain support and to expand existing businesses and critical services in rural Texas, the committee recommends the following actions:

1. Support adult and vocational training to improve management and job skills of persons in rural areas; create emphases to address the specific needs of rural residents within existing programs and agencies.

(NOTE: This Committee had action items related to Worker's Compensation; trucking regulations, unemployment insurance, and tort reform that are spelled out in the State Planning Committee report.)

## **Strategic Objective IV**

**Maintain support for the research and technical assistance base essential to rural development in Texas.**

### **Critical Issues**

Of critical importance to the development of rural areas in Texas is the continued accumulation of new knowledge of the factors that lead to successful rural developments, of the socioeconomic costs and benefits of alternative forms of providing private and public services, and of the implications of evolving trends for rural economies, populations, service and fiscal bases, and the social structure of rural areas. Equally important is the need to disseminate such information to rural residents to enhance their technical and educational base and to allow them to more effectively compete in national and international markets. Although present financial conditions severely limit the opportunities for program expansion, continued support for such services should be given high priority at existing levels of funding and should be enhanced if additional funding becomes available.

### **Actions**

To promote the continuation and potential expansion of rural development research and technical assistance, the committee recommends:

1. Continued support for appropriations for rural development research and technical assistance programs.



# State Planning Committee Report

## Introduction

The State Planning Committee was asked to focus on issues and to develop recommendations regarding the coordination of state government agencies in addressing the agricultural development agenda. The committee directed its attention to a number of different issues through invited presentations and public hearings. If the issues addressed had implications for the agenda of other committees, the primary focus was given to coordination of state agencies, development and dissemination of information, and the establishing mechanisms for increased visibility and consideration of agricultural development in state government.

The committee identified four strategic objectives that define the primary issues and concerns. This report presents those strategic objectives, and recommends actions that can be undertaken to address each objective. In many cases, recommended actions will serve more than one objective.

## Background

Nine agencies identified in the state budget have primary responsibilities relating to agriculture. These are the Texas Department of Agriculture, the Texas Agricultural Experiment Station, the Texas Agricultural Extension Service, the Texas Forest Service, the Rodent and Predatory Animal Control Service, the Texas Veterinary Diagnostic Laboratory, the Natural Fiber and Food Protein Commission, the Animal Health Commission, and the Soil and Water Conservation Board. These agencies provide many of the programs already in place that impact on agriculture.

Many other dimensions of state government also have major significance for agriculture but are not part of the traditional agencies. Of particular interest and concern are the Texas Water Development Board and the newly organized Texas Department of Commerce. Beyond these, other agencies such as the Railroad Commission and the Highway Department have important, though more indirect, impacts on agricultural development and competitiveness. The emphasis of review and discussion within the State Planning Committee was on ways to focus and enhance the impact of all these agencies in addressing the agricultural development agenda.

## Strategic Objectives and Recommended Actions

Agricultural development consists of several major elements. These include fostering new and expanded agribusiness enterprises, developing new value added processing industries, maintaining the competitiveness of the already large and diverse agricultural economy, and expanding relationships in the international sphere, particularly with Mexico. The strategic objectives adopted by the committee reflect these four major areas of opportunity.

### Strategic Objective I.

**Enhance organization and coordination among and within state agencies to address emerging agricultural development problems.**

### Critical Issues

Agricultural agencies of state government each have unique responsibilities growing out of needs for regulatory, development, research, and educational programs. These separate agencies have their own agenda and priorities influenced by unique perceptions of the problems and opportunities, availability of resources, and organizational structure. Coordination among agencies has evolved over time.

The economic development agenda at the state level is changing rapidly. A new state agency, the Texas Department of Commerce, will soon become the focal point for much of the activity in this area. A new state-wide Chamber of Commerce has just been formed. Economic development of rural areas and the development of agricultural and related agribusinesses must be coordinated on this larger scale. The

activities of state government can be critical in providing support, removing barriers, and generally increasing the success of agricultural development initiatives.

#### **Actions**

1. Establish an inter-agency council on agricultural development with representatives from all relevant state agencies.
  - Schedule meetings on a regular basis.
  - Establish lines of communication among agencies in a more formal manner.
  - Exchange information and develop cooperative programs and new initiatives.
  - Reduce potential for competitive or duplicative programs.
  - Schedule periodic meetings with representatives from agriculture, agribusiness and the general public such as commodity groups, farm organizations, agricultural labor, and consumer groups.
2. Encourage all state agencies to make information and services accessible to individuals, farm organizations, commodity groups, and agribusiness firms throughout the state.
  - Develop collaborative programs of information dissemination among state agencies utilizing existing networks such as the Texas Agricultural Extension Service whenever possible.

### **Strategic Objective II.**

**Increase food and fiber processing and value added to agricultural and forestry products in Texas.**

#### **Critical Issues**

The large and diverse agricultural industry of Texas produces many food and fiber commodities and forest products. Economic growth in agribusiness can be enhanced through the conscious efforts of state agencies to encourage development of industries that convert these raw commodities into consumer and industrial goods. In 1985 shipments of Texas food manufacturers were \$18.9 billion, \$6.4 billion of which was value added in manufacturing.

Accomplishing this objective will not be easy or automatic. Many states are looking at value added agribusiness potential, and competition is growing to attract such economic activity. Careful development of balanced growth strategies is needed, strategies that focus on developing new food and fiber processing ventures and encouraging growth from within the state. Constraints which must be addressed include lack of information on investment opportunities, overly restrictive regulation of transportation rates for manufactured goods, and the need for increased development and transfer of new processing technology.

#### **Actions**

1. Establish and promote policies that encourage development and transfer of technology and new investment in Texas food- and fiber-processing industries.
  - Promote an agribusiness “incubator,” as proposed in the Texas Agricultural Diversification Program.
  - Support the Texas Agricultural Finance Authority as currently structured to enhance new food- and fiber-processing and marketing ventures.
2. Promote initiatives in trade development and export enhancement that increase markets for Texas value-added food and fiber products.
  - Encourage continued federal initiatives designed to reduce trade barriers through GATT and other negotiation processes.
  - Support State of Texas trade development initiatives in the Texas Department of Agriculture and the Texas Department of Commerce.

### 3. Improve transportation systems and services.

- Support legislation that expands the agriculture exemption to include intrastate movement of food and fiber products.
- Maintain emphasis on high-level maintenance of Texas highways and bridges.
- Establish a state-wide coordination effort in support of further development of Texas deep-water ports.
- Work with the Texas Congressional Delegation to ensure that regulation of farm trucks is consistent with their limited use.

(NOTE: Also recommended an action on agribusiness development that is found in the Rural Economic Report.)

## **Strategic Objective III.**

**Focus state government programs and activities to maintain profitability and competitiveness of Texas agriculture.**

### **Critical Issues**

Agriculture is a major part of the state's economy and is the number-one renewable economic resource. It is a resource-based industry which, with proper management, will continue to grow and develop without depleting its resource base. Developing and implementing appropriate management strategies is a key ingredient in the success of reaching this objective.

Managing agricultural systems is largely a function of the private sector. However, the complexity of emerging technology, increasingly global markets, and greater competition from other economic sectors for access to natural resources combine in a way that calls for greater involvement of state government. Programs relating to water, soil, pesticide use, agricultural labor, and marketing are examples of ways in which the fundamental well-being of agriculture is influenced by state agencies and activities. Balancing these competing forces while maintaining a vital and supportive business environment is a challenge to all public agencies with programs related to agriculture and natural resources.

### **Actions**

1. Integrate into the state's economic planning and development strategies, in all agencies, a recognition that agriculture is a major part of the state's economy and is the number-one renewable resource of Texas.
2. Promote and support emphasis on conservation and management of quantity and quality of water resources as provided for in the current Texas Water Plan.
3. Develop equitable policies for regulation and management of the state's total water resources, while considering the impact of change on legal, social, and economic concerns.
  - Determine effectiveness of a pilot program that provides loans to encourage water use efficiency and conservation, and encourage necessary redesign and expansion of this program.
  - Establish research data collection initiatives in appropriate agencies to develop methods to protect the state's water quality.
  - Expand technology transfer and education programs regarding application of water-conserving and efficiency-enhancing technology.
4. Review and encourage agricultural diversification through the Texas Agricultural Diversification Program to improve access and efficiency in generating new opportunities for agriculture.

- Expand efforts to increase awareness of availability of these programs and ways they may be used to enhance agricultural development.
5. Provide for improved Texas Worker's Compensation laws and programs as recommended by the Joint Select Committee on Worker's Compensation.
    - Restructure and increase the power of the Industrial Accident Board to improve efficiency and reduce the cost of administering the program and resolving claims.
    - Allow self-insurance for those financially qualified, and apply stringent standards to ensure prompt and fair delivery of benefits.
    - Clarify and simplify the laws to make them easier for employers and employees to understand.

(NOTE: Also recommended by the Rural Development Committee and the Taxation and Finance Committee.)
  6. Monitor application of Immigration Reform and Control Act (IRCA), and encourage changes that assure an adequate labor force for agriculture.
  7. Support and promote the use of self-help and government assistance programs that are designed to expand both domestic and foreign markets for Texas agricultural products.
    - Expand the use of state and/or federal market orders as a self-help tool to enhance the market orientation of Texas agriculture.
    - Promote cooperative programs among the state agricultural product promotion efforts, those at the federal level, and private sector initiatives.
    - Promote educational and export financing programs through appropriate state agencies to enhance the level of development of foreign markets for Texas agricultural commodities and products.
  8. Support initiatives in public and higher education that promote the increased levels of training and management skills needed as agriculture evolves in a more technologically complex production and business environment.

## **Strategic Objective IV.**

### **Build improved relations between Texas and Mexico.**

#### **Critical Issues**

Texas and Mexico share many common interests and problems. Economic and cultural exchanges hold great promise for the future of Texas, the United States, and Mexico. Special initiatives of the state government can be undertaken to encourage further improvements.

#### **Actions**

1. Establish a formal exchange program for students and faculty in the agricultural sciences.
  - Support increased funding for travel associated with agricultural research and technology transfer between Texas and Mexico.
  - Support increased scholarship funding and out-of-state tuition waivers for students from Mexico similar to recently passed legislation affecting selected Texas colleges located close to the border.
2. Expand trade initiatives in Mexico to promote trade in products and technology-based agricultural services.
  - Support Texas Department of Agriculture trade programs with Mexico.

- Establish representation of agriculture in emerging trade programs of the Texas Department of Commerce.
  - Assist Texas commodity groups to increase trade with Mexico.
3. Initiate through existing state programs joint programs with Mexico to identify emerging pest management issues and to develop and test management strategies.
  4. Promote general educational programs in Texas and Mexico that expand the understanding of problems and opportunities shared by Mexico and Texas.
- Continue regular meetings among the governors of Texas and adjoining states of Mexico to identify and discuss agricultural development issues.

# Agricultural Research and Technology Committee Report

## Introduction

The committee was charged with a review of the role of science and technology in agricultural and related industrial and community development. The review encompassed efforts to improve the efficiency of agricultural production, efforts to develop new products and enterprises, and the role of research and technology in environmental concerns. The committee also addressed the adequacy of present policies and investments in agricultural research and technology transfer to meet the needs of the state, and to ensure competitiveness for federal funds.

Federal research and development outlays to agriculture and life sciences are lagging behind outlays to other areas of science. Furthermore, Governor Clements noted in his initial charge to the Task Force that Texas was not getting an adequate share of the federal resources allocated to agriculture research. Most new federal funding for agriculture is targeted for fundamental research, which raises concerns about the maintenance of necessary adaptive research and associated extension efforts to ensure early adoption of new knowledge among the diverse commodities and regions within the state.

Texas is also lagging among agriculturally important states in the ratio of research investment to total receipts received for agriculture. In 1986, the Texas legislature appropriated the equivalent of 0.45 percent of the state's agricultural receipts to research. By contrast, Louisiana committed 1.60, and Florida and California showed 0.90 and 0.57, respectively. The impact of these ratios is even more significant given that the diversity of Texas agriculture approaches that of both California and Florida. Agricultural research and technology also continue to be undercapitalized in terms of cost-benefit ratios. Analysis of a wide array of expenditures for particular commodities and areas of science indicates returns from research in the 30-50 percent range, far above alternative investment opportunities.

The committee identified five strategic objectives that are intended to assure that the state can develop an expanded industrial and economic base by developing and maintaining a competitive advantage in agricultural research and technology in support of Texas agriculture.

## Background

This system includes campus-based scientists and technology specialists and regional centers that are particularly sensitive to the process of adaptive research and technology transfer to meet local needs. The system also provides the base to compete for funds through the state's Advanced Research and Technology Program. Such programs accelerate scientific progress, but do not provide a sustained base for agricultural research and technology.

New scientific developments such as biotechnology are providing exceptional opportunities for agriculturally related enterprises to broaden the state's industrial base. Research and technology can also help correct the state's poor ranking in the value added from processing agricultural and forest materials.

The continued health of Texas agriculture increasingly depends on a more complete knowledge base to ensure the permanence of the state's natural resources. Research and technology efforts are essential to the revitalization of Texas agriculture and its agriculturally dependent communities.

## **Strategic Objectives and Recommended Actions**

### **Strategic Objective I.**

**Enhance economic activity through research to improve efficiency and competitiveness of Texas agriculture.**

#### **Critical Issues**

To assure a comparative advantage, the development and adoption of new technology is critical to Texas agriculture. Other nations are rapidly developing their agricultural resources, and increasing their investment in agricultural science and technology. The cost of producing agricultural commodities can be reduced by integrating the results of research in biotechnology, computer-aided decision making, and resource conservation into production systems. For example, rice production costs in Texas have been reduced by 30 percent over the past 3 years through a collaborative effort of the rice industry, the Texas Agricultural Experiment Station, and the Agricultural Research Service, USDA. Research is also needed to develop or improve control strategies for a number of exotic pests that threaten both agriculture and human welfare in the state. The Africanized bee is expected to arrive in Texas by late 1989. The Russian wheat aphid and Hessian fly are imposing new impacts on wheat production, and the rice borer will reach the rice belt in the next growing season. Computer-aided decision systems are also needed to reduce the risks associated with market, finance, weather, and pests.

#### **Actions**

1. Support the maintenance of a broad-based research and extension capability in the state, extending from basic discovery to adaptive research and technology transfer activity.
2. Support incentives to private agricultural interests for cost-sharing of high-priority research and technology programs.

### **Strategic Objective II.**

**Stimulate economic activity by creating new agricultural opportunities and industries through agricultural research and technology.**

#### **Critical Issues**

Development of recombinant DNA technologies has created the potential for new industries and for dramatic evolution of the existing industry. Texas is in a unique position to benefit from agricultural biotechnologies, but must take action soon to capitalize on this new science. Of the 2,057 existing biotechnology firms, only 81 (3.9%) are located in Texas. The distribution of biotechnology firms is closely related to the importance that respective states assign to science and technology through support of research universities, advocacy of industry/university relationships, and availability of "incubator" arrangements to nurture entrepreneurship. Texas agriculture can also be significantly strengthened by placing more emphasis on the development of products and processes that will add value to agricultural, fishery, and forest products in which the state can achieve a comparative advantage. A 1 percent increase in value added agribusiness would add about \$2.2 billion in total economic activity in Texas.

The state's diverse natural resource base offers the potential to research and develop alternative agricultural enterprises, such as kenaf and exotic meat animals, and tailor valuable crops to new locations to increase landowner revenue while stimulating the general economy. In both value added and diversification objectives, product differentiation, convenience, and quality are essential to satisfy consumer needs.

#### **Actions**

1. Work with the Texas Congressional delegation to establish more federally sponsored laboratories, institutes and federal/state centers for agricultural research and life sciences in the state. The Institute of Biosciences and Technology at Houston and the Plant Stress Laboratory at Lubbock are two current opportunities. These institutions will forge new relationships within the state's scientific community, and provide national leadership in their respective missions.

2. Work with the Texas Congressional delegation to ensure that the next farm bill addresses research and extension needs of Texas.
3. Support the funding of a new program in the Department of Commerce to stimulate development of new science-based industry by providing matching "incubator" funds. This program could require a 3:1 matching contribution and be used for start-up operational costs.

### **Strategic Objective III.**

**Maintain a sound environment through prudent use of natural resources.**

#### **Critical Issues**

A healthy natural resource base is essential to sustain the state's economic strength and environmental quality. The quality and quantity of available water is particularly critical to the state's future. In 1985, 61 percent of the state's total water use was for irrigated agriculture. This rate cannot be maintained at present levels without developing additional water sources, implementing conservation measures, and developing new water-conserving technologies. Growing concerns about the fate of pesticides, wetlands, fragile soils, and unique biological communities in the state (including endangered species) are requiring new knowledge to develop modified management practices to balance production and protection, and to serve as alternatives to additional regulatory action. The range, forest, and aquatic systems in Texas contribute to the state's welfare in many ways: jobs, water, wildlife and fisheries, range, and a diverse array of recreational values. For example, fish and wildlife systems, including aquaculture, contribute an estimated \$1.1 billion annually to the state's economy, and have significant potential for further development. Biotechnology and artificial intelligence concepts offer dramatic potential to improve productivity of forest, range, and wildlife systems, while assuring the permanence and multiple use of the natural resource base.

#### **Actions**

1. Support appropriations for adequate short- and long-term funds for research and extension initiatives on economically threatening exotic pests.
2. Work with the Texas Congressional delegation to ensure that the federal government assumes its responsibility in providing research funds to defend the southern border from exotic diseases and pests, in collaboration with other nations involved as appropriate.

### **Strategic Objective IV.**

**Develop economic opportunities for rural communities.**

#### **Critical Issues**

Declines in demand for goods and services and in property values are threatening the survival of some rural communities and the stewardship of the land resources. The development of new resource-based enterprises and the strengthening of existing agricultural enterprises are the most feasible means of supporting rural communities. Product differentiation and enterprise diversity can stimulate economic opportunities. There is also the need to develop processes and markets to better utilize by-products of agricultural production, e.g. the hides of food animals produced in the state. The development of rural recreation and tourism opportunities and their integration into the growing tourism and business conference industry in the state could contribute to local communities' and the state's economy. The realization of these economic opportunities for rural Texas will require a comprehensive strategy that includes the identification of specific priorities, the development of needed information, and both technical and managerial expertise for producers, processors, entrepreneurs, financial institutions, and state and local economic development organizations.

#### **Actions**

1. Support appropriations by the Legislature for accelerating the capability of the Texas Agricultural Extension Service in electronic information delivery systems.



2. Work to facilitate the coordination of state government services and research and extension organizations in meeting the needs of rural communities.

## **Strategic Objective V.**

### **Enhance public support for agricultural research and technology.**

#### **Critical Issues**

Public and private investments in research and technology development provide critical benefits to those directly engaged in the agricultural system, to the supply industries, and to the consumer. Given the strategic role of science and technology and growing competition for public funding, it is crucial that the beneficiaries of agricultural research and extension have a better understanding of the role of basic and applied research and technology transfer in their welfare. Companion efforts must be mounted to ensure that state and federal policy makers, budget analysts, and state and federal legislatures recognize the critical importance of including agricultural research and development as part of the high-technology agenda of Texas and that they aid in the procurement of federal funds to address needs of Texas agriculture. The private sector must also recognize the importance of its participation in the direct funding of agricultural research and technology as a means of leveraging state and federal resources. This participation should not be at the expense of state appropriations.

#### **Actions**

1. Support appropriations by the Legislature for an expansion of the state's agricultural science and technology base to enhance economic development. The new resources should be targeted toward technologies that add value to raw materials produced in the state, conserve the state's natural resource base, spawn new science-based industries, and will increase productivity.
2. Establish and support an annual Agriculture Research and Development Week to highlight the benefits of research and development to the state.

# Taxation and Finance Committee Report

## Introduction

Texas faces a continuing examination of taxation and finance policies that will produce revenue needed to support state and local services. Any taxation and finance policy transfers resources from the private sector of the economy to the public sector. An efficient policy is one that raises necessary public revenue in a way that minimumly disrupts the productivity of the private economy.

Texas state and local governments have long depended heavily on the oil and gas industry as a primary source of revenue to support state and local services. This revenue source is diminishing, and new taxation and finance policies will have to be considered. Without this basic revenue buffer, which has generated as much as 20 percent of all state revenues, the Texas revenue system has proven to be inadequate to support current levels of spending. As a consequence, the legislature several times in recent sessions has raised rates on existing taxes and has created new taxes. Although it is not within the scope of this committee to consider the broad spectrum of taxation and revenues available to the legislature, this report does address those taxation and revenue issues that are critical to the overall objective of the Task Force — agricultural development. In addition to taxes, the committee makes specific recommendations related to other state policies that are critical to the health and growth of agriculture and business within Texas.

## Background

General tax considerations arise from Texas' current fiscal needs and the impact of the Federal Tax Reform Act. The current revenue system in Texas does not meet the tests of adequacy and stability. That is, the tax base for state and local governments does not grow in proportion to the needs for state and local public spending. The growing sectors of the economy are not taxed, and the taxed sectors are not growing. Hence, the burden of taxation in Texas is increasing.

In response to this situation, the Texas public revenue system is under review by the Select Committee on Tax Equity, which will soon make recommendations to the legislature on any needed revisions in the Texas tax structure. Although the recommendations of the Select Committee are yet unknown, it is critical that the relative tax position of agriculture and rural agribusiness be maintained if these sectors of the economy are to grow and develop. In addition to specific taxation issues, state and federal laws relating to regulation, workmen's compensation, unemployment insurance, and tort liability must be designed to promote a healthy environment for rural business investment and subsequent generation of public revenues through the expansion of the tax base. The recent trends in many of these public interventions into private business operations have not been favorable to the continued health and vigor of agriculture and rural business. If a continuation of these trends limits rural capital investments, the burden of local and state taxation will increase.

Texas laws exempt from sales taxation items purchased by farmers and ranchers to be used in agricultural production (e.g. feed, fertilizer, machinery, equipment, etc.). In 1979, changes in Texas law significantly broadened the eligibility of land for ad valorem tax valuation at agricultural or timber productivity values rather than market values. In addition, the state property tax was eliminated, and all farm personal property held by farmers and ranchers was exempt from ad valorem taxation. Taken together, it is estimated that these tax provisions save farmers and ranchers over \$1 billion per year. This amounts to fully one half of net farm income in Texas and exceeds the value of all federal farm program payments to farmers of the state. These state and local tax provisions are important to the competitiveness of agriculture in Texas and must be preserved. The loss of these provisions would result in bankruptcy by many farmers and ranchers, failure of rural banks and financial institutions, devaluation of rural land, and a flight of capital from agricultural and rural business investments to competing states and countries.

## **Strategic Objectives and Recommended Actions**

### **Strategic Objective I.**

**Preserve state and local taxation procedures for agriculture.**

#### **Critical Issues**

State and local taxation is an important component of the cost structure of agricultural and agribusiness in rural Texas. At both the state and local taxation level, farmers and ranchers enjoy a relatively sound position that enables them to produce agricultural products at costs that can compete in national and international markets. The loss of this tax position would seriously limit Texas farmers' and ranchers' ability to sell their products in the highly competitive marketplace because many major competitors are heavily subsidized by their state and/or national governments.

#### **Actions**

1. Work with the State Property Tax Board in developing clear, concise, and enforceable rules for evaluating the qualifications for open-space, use valuation.
2. Support legislation that requires each Central Appraisal District to form a farmer and rancher advisory board to advise and consult with the chief appraiser on open-space, use-value land appraisals of agricultural and timber land for ad valorem tax purposes.
3. Support programs to protect the current status of the homestead in financial agreements by restricting the ability of home owners to use the accumulated equity in homesteads as second-lien collateral.
4. Ask that the Office of the Comptroller, State Property Tax Board, and appropriate state research agencies calculate and publish the impact on farmers and ranchers of all new tax proposals or changes in rules and procedures governing current taxes.

### **Strategic Objective II.**

**Enhance Texas agriculture's federal tax position.**

#### **Critical Issues**

The Federal Tax Reform Act of 1986 contains numerous changes that affect Texas farmers and ranchers and their ability to compete. Because of the diversified nature of Texas agriculture and its unique dependence upon livestock as a major source of income, many of the new federal tax provisions adversely affect Texas farmers and ranchers. Several issues need to be addressed to enhance Texas agriculture's federal tax position. Changing the adverse effects of the Federal Tax Reform Act of 1986 will require initiatives at the federal level to modify current legislation and/or Internal Revenue Service rules and procedures. Private agricultural businessmen and state and federal elected officials will need to initiate this action. Several state and federal agencies may provide assistance with this as well as other tax problems through research and impact assessment of proposed changes.

#### **Actions**

1. Work closely with the Office of State-Federal Relations and the Texas Congressional Delegation to encourage the repeal of the diesel and heifer tax provisions of the federal tax policies.
2. Work closely with the Office of State-Federal Relations and the Texas Congressional Delegation to closely monitor and evaluate any proposed changes in the rules and procedures of the federal estate tax laws as they are reviewed in congressional hearings to ensure the continuation of provisions governing the estate transfer of farm and ranch property.
3. Work closely with the Office of State-Federal Relations and the Texas Congressional Delegation to monitor and evaluate the Internal Revenue Service's development of rules and procedures for im-

plementation of the passive income provisions of the 1986 Tax Reform Act. Initiate programs of action within the Governor's Office and the Texas Congressional Delegation that will develop passive income rules and procedures that protect the incentive for farmers and ranchers to diversify their operations and encourage the investment of private capital into agriculture.

### **Strategic Objective III.**

#### **Conservation in state and local government.**

##### **Critical Issues**

Federal, state, and local government spending continues to be the fastest growing component of the U.S. and Texas economies. This trend transfers an increasing amount of scarce resources (capital) from the private enterprise sector of the economy to the public sector. While it is recognized that effective public services are necessary for a healthy society and that such services are costly, excessive public spending and taxation limits the ability of the private sector to produce necessary goods and services at competitive costs. Evidence of this problem is in the growing general financial deficit and in continually increasing state and local taxes. Attempts to contain the rising costs of government must be initiated by implementing sound business practices, seeking the most effective ways to provide public services, and introducing means to conserve existing public financial resources.

##### **Actions**

1. Create an advisory committee on service privatization composed of private citizens and state and local officials to investigate all those areas of public services that may be provided more efficiently by contacts with private individuals or firms.

### **Strategic Objective IV.**

#### **Create a favorable legislative environment for growth in agriculture and business in rural Texas.**

##### **Critical Issues**

The most productive means of providing increased state and local tax revenue is through the creation of a vibrant and growing private economy in Texas. Economic growth and private investment expands the state and local tax base and enables the government to meet growing public service demands without necessarily increasing tax burdens. The ability to achieve this is influenced significantly by the state and local laws governing business operations, including regulations, taxes, and public services. Texas rates poorly in many of these areas that influence the environment for business growth and development. For example, restrictive regulations in the trucking industry cause Texas' intrastate-hauling rates to be significantly higher than its interstate rates. This fact adversely affects efforts to attract industry to the state. Texas ranks in the top 10 percent of all states in terms of workmen's compensation premiums, but in the lowest 10 percent in terms of benefits. This system obviously needs serious reconsideration if Texas businesses are to compete. Other similar factors such as fraudulent unemployment insurance claims and the rising cost of business liability claims all contribute to an adverse climate for private investment and ultimately to a decrease in the state and local tax contribution of private enterprises to revenue needs. Changes in these factors can stimulate growth and positively affect the expansion of the Texas tax base.

##### **Actions**

1. Explore alternative means of providing private-sector venture capital for selected self-developed businesses in rural areas.
2. Monitor and review the Senate Committee on Natural Resources actions concerning the Right-to-Know Law.

(NOTE: This Committee had action items related to Worker's Compensation, trucking regulations, unemployment insurance, and tort reform that are spelled out in the State Planning Committee report.)

# Federal Issues Committee Report

## Introduction

The importance of agriculture and related industries to the Texas economy, combined with the major effect that federal government programs have on influencing export demand, quantities produced, and cost of production, requires that the State of Texas actively participate in evaluating and influencing federal policy and program decisions. This role can only be effectively performed if the state officials are regularly informed. At times, these issues are of sufficient importance that direct involvement of the Governor becomes essential.

This report is designed primarily to provide advice to the State of Texas on the role of the federal government in agriculture and the need for the State's involvement in influencing federal policy and program decisions. This report overtly avoids commodity-specific program issues which can better be dealt with by farm organizations.

## Background

Federal programs designed to support farm prices and incomes date back to the late 1930s. Every 4 or 5 years, a new farm bill is debated by the Congress. Interim legislative changes often are made to deal with particular problems that arise from the instability of agriculture, the complexity of farm programs, changes in the world economy, or the existence of unforeseen program consequences.

The degree of government involvement and the nature of the programs have changed markedly over time. For example, the farm programs in the 1930s to the 1950s emphasized supporting farm prices. Whereas, in recent years, increasing emphasis has been placed on income supplements, leaving prices free to seek their own market-determined level. Likewise, although some past programs have mandated producer participation, even to the extent of controlling production, farmers now have greater flexibility in deciding their degree of participation in farm programs.

The 1985 farm bill expires in 1990. Therefore, in 1989 the debate will begin to determine the future course of farm policy. Many aspects of the 1985 farm bill were moves in the right direction. For example, decisive steps were taken to make U.S. commodities more competitive in world markets while protecting farm incomes from the effects of subsidies and other barriers to trade that exist throughout the world. However, the 1985 farm bill made U.S. farmers more dependent on the government for their income and, thereby, increased farm program costs.

Farm policy is not determined in a vacuum. It is also a function of trade policy, foreign policy, and macroeconomic policy. The link of farm policy to trade policy is now particularly apparent during the current GATT negotiations and the Reagan Administration's proposals for multilateral elimination of farm program subsidies by year 2000.

Although farmers and ranchers have great concern over the need to protect the environment, they are also acutely aware of the need to compete and survive. The inclination of the federal government to utilize farm programs to achieve environmental regulatory goals has become a major concern to Texas farmers. In addition, farmers, in concert with their elected and appointed representatives, must have the latitude to develop workable means of accomplishing federally mandated environmental goals.

Since the State of Texas is being called upon to play a major role in implementing environmental regulations, Texas should also be in a position to play a decisive role in the development of these regulations. This requires a higher level of intelligence, analysis, communication with farm-related interest groups, and involvement in the policy process than has been typical of state governments.

## Strategic Objectives and Recommended Actions

### Strategic Objective I.

**The federal government should continue to lend support for the expansion of markets for farm products and the promotion of fair trade among exporting and importing countries.**

#### Critical Issues

For most major Texas crops, at least 50 percent of the production must be exported for farmers to realize favorable prices and incomes. Substantial efforts have been made to expand markets for farm products which should now be capitalized on through further promotional efforts and not disrupted by government action. In a trading environment that recognizes substantial principals of fairness, potential exists for expanded exports of both crop and livestock products. Achieving expanded export sales requires concerted efforts and mutual support of the federal government, state government, and producer organizations.

While the ultimate goal of trade negotiations might legitimately be that of completely free trade, in an imperfectly competitive world composed of many country (state) traders, such a goal is difficult, if not impossible, to achieve. Trade negotiations must be pursued from a position of strength with full knowledge of the effects on Texas producers. Every effort must be made to put Texas producers in the best position to compete in international markets. This is the only way that a fair trading environment can be created.

#### Actions

1. Regularly monitor GATT trade negotiations and obtain appropriate evaluations of the impacts on Texas producers.
2. Direct the Department of Commerce to explore the opportunity for establishing a modern rail transfer facility near the Mexican border to facilitate and expand trade with Mexico and potentially with other Central American countries. Such a project should probably be a joint effort of the Federal and State government with private sector involvement and joint financing.
3. Analyze and foster dialogue on the potential for creating a trade agreement with Mexico, comparable to that signed with Canada, with the U.S. Trade Ambassador and the Departments of State, Commerce, and Agriculture.
4. Advocate with the Texas Congressional Delegation and appropriate Federal agencies such as USDA, EPA, NIH, and NSF, a high level of federal research and extension support designed to increase the competitiveness of agriculture and to assure that Texas universities are in the best position to compete for federal funds.
5. Support the establishment of mechanisms, such as producer checkoff programs, that can be used to expand export markets on a matching fund basis with USDA cooperator monies.
6. Support the expansion of the exports of farm commodities, through programs such as export enhancement, and work to avoid export market disruptions such as embargoes.

### Strategic Objective II.

**Support the maintenance and fine tuning of the current market-oriented farm policy with the level of income protection required for efficient farmers and ranchers to survive.**

#### Critical Issues

The 1985 farm bill made significant strides in the direction of a more market-oriented farm policy by providing increased assurance that U.S. commodity prices would be more competitive in world markets. For example, loan rates were lowered and the marketing loan was implemented in rice and cotton. What is required in 1990 is not a major change in policy but, rather, a fine tuning of farm program provisions

designed to reduce government take-over of commodity stocks, to avoid distortions or inefficiencies in production, and to reduce the risks of natural disaster involved in agricultural production.

#### **Actions**

1. Support expansion of the marketing-loan concept to other major program commodities. In pursuing this action, means should be explored to discourage forfeiture of commodities to the Commodity Credit Corporation.
2. Urge the establishment of loan provisions that do not interfere with exports.
3. Advocate with the Texas Congressional Delegation the expansion and improvement of the Federal Crop Insurance program to reflect more accurately the risk of loss, and also to prevent program abuse.
4. Urge the Texas Congressional Delegation to work for the modification of the tax code to reinstate income tax averaging and, thereby, recognize the volatility of income involved in farming and ranching.
5. Support the combination of the Conservation Reserve Program and acreage reduction program as a means of tailoring production to market needs.
6. Advocate USDA rule changes that make loan rate differentials reflect more accurately the quality of the product as indicated by market forces.
7. Urge the expansion to all agricultural commodities, provisions that put the producers in the position of a secured creditor in the hierarchy of claims.

#### **Strategic Objective III.**

**Assure adequate consideration of farmers, ranchers, and agribusiness interests in the resolution of environmental issues.**

#### **Critical Issues**

Environmental regulations, such as those for endangered species, animal rights, and water quality, could create a severe disadvantage or even shutdown significant segments of Texas agriculture. Texas is responsible for enforcing many of these federally mandated regulations and bears most of the enforcement cost. It is critical that Texas have formal channels for input into the regulatory process. This input should include both the regulations and the procedures for implementing them.

#### **Actions**

1. Urge federal and state agencies to minimize the use of farm programs to achieve environmental goals. And, when programs such as soil conservation are used, advocate regulations that are practical and reasonable.
2. Advocate federal sharing of the regulatory costs consistent with the distribution of Texas benefits as opposed to those enjoyed by society as a whole.
3. Support analyses of the costs of environmental regulatory enforcement and make these analyses available to the regulators, the Texas Congressional Delegation, the agriculture related organizations, and the general public.
4. Encourage food inspection agencies to provide public assurance that products entering Texas, but produced in other countries, meet U.S. standards for environmental protection and health. Urge increased inspection of products for residues of those chemicals restricted for use in the United States.
5. Establish an intelligence network to provide input into the development of regulatory rules, standards, and guidelines while they are being developed.

# Appendix I: Executive Order

## EXECUTIVE ORDER

BY THE

## Governor of the State of Texas

THE STATE OF TEXAS  
EXECUTIVE DEPARTMENT  
OFFICE OF THE GOVERNOR  
AUSTIN, TEXAS

EXECUTIVE ORDER  
WPC-88-6

### ESTABLISHING THE GOVERNOR'S TASK FORCE ON AGRICULTURAL DEVELOPMENT

WHEREAS, Texas farmers and ranchers are the backbone of Texas' economy; and

WHEREAS, Texas leads the nation in the number of farms and ranches; and

WHEREAS, Texas is the number-one producer of cattle, sheep, goats, wool, mohair, and cotton; and

WHEREAS, Texas leads the nation with 133.2 million acres used in agriculture; and

WHEREAS, Texas ranks first among the states in the value of farm assets located in the state with nearly 73.1 billion dollars in assets; and

WHEREAS, Texas consistently ranks among the top three states in total cash receipts realized from agricultural production; and

WHEREAS, production agriculture and agribusiness constitute the second largest industry in Texas; and

WHEREAS, the continued development of improved technology and dissemination of information is crucial to Texas' farm programs; and

WHEREAS, the current economic conditions in Texas accentuate the importance of agriculture to the economy of the State;

NOW, THEREFORE, I, William P. Clements, Jr., Governor of Texas, under the authority vested in me do hereby create and establish the GOVERNOR'S TASK FORCE ON AGRICULTURAL DEVELOPMENT, hereinafter referred to as the TASK FORCE.

#### I. PURPOSE

The purpose of the TASK FORCE is to bring leaders from Texas commodity groups, agricultural organizations, private agribusiness, education, and state government together to address common issues and help develop specific recommendations for action at both the state and national levels.

#### II. ORGANIZATION

1. The TASK FORCE shall consist of 26 members appointed by the Governor.

2. The Governor shall appoint the Chairman of the TASK FORCE.



3. The Chairman shall designate members to serve on one of the five following committees and shall designate a chairman for each committee subject to the approval of the Governor: the Rural Economic Development Committee; the Agriculture Research and Technology Committee; the Taxation and Finance Committee; the State Planning Committee; and the Federal Issues Committee.

4. TASK FORCE members shall serve without compensation or reimbursement of expenses.

### III. FUNCTIONS

The TASK FORCE shall:

(1) examine the recommendations included in the report of the Agribusiness Committee of the Business Development and Jobs Creation Task Force and the recommendations of other previous task forces and committees on agriculture to develop an outline for discussion and further study by the TASK FORCE;

(2) develop proposals for legislation for the next session of the Legislature and assist the Legislature in developing, evaluating and implementing a comprehensive agriculture program; and

(3) study policy alternatives and issues important to Texas agriculture prior to Congressional consideration of the next federal farm bill.

### IV. MEETINGS

The TASK FORCE shall meet at the call of the Chairman. The committees shall meet at the call of the individual committee chairmen.

### V. REPORTS

On or before September 30, 1988, the TASK FORCE shall submit to the Governor a report of its activities, findings, and recommendations regarding the vital state and federal issues affecting Texas agriculture.

All agencies of State and Local governments are hereby directed to cooperate with and assist the Task Force in the performance of its duties.

This Executive Order shall become effective on this 21st day of April, 1988, and shall remain in effect until amended, modified, or rescinded by me.

Given under my hand this  
21st day of April, 1988.



*W.P. Clements, Jr.*  
\_\_\_\_\_  
William P. Clements, Jr.  
Governor of Texas

*Jack M. Rains*  
\_\_\_\_\_  
Jack M. Rains  
Secretary of State

Filed in the Office of  
Secretary of State  
APR 25 1988  
Statutory Filings Division  
Statutory Documents

# Appendix II

## Advisers to the Task Force

**Edward Breihan**  
Farm Credit System

**Dr. Zerle Carpenter**  
Texas Agricultural Extension Service

**Dr. Sam Curl**  
College of Agricultural Sciences  
Texas Tech University

**Vernie Glasson**  
Texas Farm Bureau, Waco

**Terry Harman**  
Texas State ASCS

**Representative Dudley Harrison**  
Sanderson, Texas

**Joe Maley**  
Texas Farm Bureau, Austin

**Charles Scruggs**  
Editor Emeritus Progressive Farmer

**Senator Bill Sims**  
Texas Sheep & Goat Raisers' Association

**Representative Dick Waterfield**  
Canadian, Texas

**Donald Rogge**  
Farm Credit System

# Appendix III

## Invitees

**Dr. Charles J. Arntzen**

Deputy Chancellor and Dean of Agriculture  
Texas A&M University System

**Mr. LaVerne Ausman**

Deputy Undersecretary for Small Community  
and Rural Development, USDA

**Mr. Daniel Byfield**

Texas Farm Bureau

**Mr. Fernando Dubove**

Co-Coordinator - Texas Project  
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**Mr. David Ellis**

Texas Department of Commerce

**Mr. James W. Farris**

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Paris Chamber of Commerce

**Ms. Debra France**

Deputy Director for Marketing and Media  
Texas Department of Commerce

**Mr. Vernie Glasson**

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Texas Farm Bureau

**Dr. Herb Grubb**

Director, Water Data Collection  
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Water Development Board

**Mr. Billy Hamilton**

Executive Director  
Select Committee on Tax Equity

**Mr. Aldolph Janca**

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State Chamber of Commerce

**Mr. Joe Maley**

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**Ms. Karla Pope-Osburn**

State Property Tax Board

**Ms. Larolyn Russell**

State Property Tax Board

**Dr. Milo Shult**

Associate Director  
Texas Agricultural Extension Service

**Mr. Winston Wilson**

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# Appendix IV

## Technical Advisors

### **Rural Economic Development Committee**

Dr. Steve Murdock  
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Texas Agricultural Experiment Station  
Texas A&M University

### **Agricultural Research and Technology Committee**

Dr. Charles Lee  
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### **Taxation and Finance Committee**

Dr. Lonnie Jones, Professor  
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### **State Planning Committee**

Dr. John Nichols, Professor  
Department of Agricultural Economics  
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### **Federal Issues Committee**

Dr. Ronald Knutson, Professor  
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