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The Next Farm Bill: International Market Development

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Chairman Rouzer, Ranking Member Costa and Members of the Subcommittee, thank you for the opportunity to testify today as you focus on the next Farm Bill and international market development programs. I am professor of Agricultural Economics and Co-Director of the Food, Agribusiness and Consumer Economics Research Center at Texas A&M University. Recently, we have all heard a great deal about the difficulties and uncertainties currently facing U.S. agriculture, policies that have not worked as planned, and new policies that need to be considered. I am pleased to be here today to talk briefly about the USDA Export Market Development Programs which have worked consistently and effectively over fifty years to bolster the profitability and viability of not only production agriculture but the broader U.S. economy as well, according to recent research by several of my colleagues at Texas A&M University, Oregon State University, Cornell University, Informa Economics and I ("Economic Impact of USDA Market Development Programs," available on-line at: https://www.fas.usda.gov/sites/default/files/2016-10/2016econimpactsstudy.pdf) .

The primary components of USDA Export Promotion Programs are the Market Access Program (MAP) and the Foreign Market Development program (FMD). These two programs are public-private partnerships between USDA and nonprofit U.S. agricultural trade associations, farmer cooperatives, nonprofit state-regional trade groups and small businesses to conduct overseas marketing and promotional activities. The Foreign Agricultural Service (FAS) administers these programs within the USDA.

The total annual spending under the USDA Export Market Development Programs has risen sharply in recent years but not because of growing government spending on these programs. Rather, contributions from the private sector, the program cooperators, have continued to rise from about 50% of the total spending in the late 1990s to currently over 70% (Figure 1). In terms of the cost share of the funds for export market promotion, the private sector contributed a record average of 240% percent in 2014. The growth in industry contributions demonstrates the strong industry recognition of the effectiveness of the MAP and FMD programs in opening, expanding, and maintaining export markets.

In a recent study, my colleagues and I subjected the USDA Export Market Development Programs to a rigorous economic analysis to answer three critical questions. First, have the USDA Export Market Development Programs achieved their avowed objective of increasing the foreign demand for U.S. agricultural products and, as a result, supported the U.S. agricultural sector? Second, has any increase achieved in exports been sufficient to contribute more to the

profitability of the agricultural sector than the cost of the programs? Third, have the programs contributed to the growth of the overall U.S. economy?

Two previous studies concluded that the USDA Export Market Development Programs have been highly effective in promoting exports with substantial benefits to the U.S. economy. I must say that I was skeptical of those results. So our research team devised a completely different and highly rigorous methodology to test whether those export promotion programs were as effective in promoting U.S. agricultural exports and as impactful on the U.S. economy as the previous studies purported.

I was personally surprised by the results of our study. In answer to the first two critical questions we posed at the beginning of our research, the study concluded that:

- *USDA Export Market Development Programs have been highly effective in boosting U.S. agricultural exports and export revenues.*
  The study found that over their history (1977-2014), USDA Export Market Development Programs have added an annual average of 15.3% ($8.15 billion) to the value of U.S. agricultural exports, 8.0% (11.5 million mt) to the volume of aggregate U.S. agricultural exports, and about 6.7% ($25.07/mt) to the aggregate price of U.S. agricultural exports.

- *USDA Export Market Development Programs generated a high benefit-to-cost ratio (BCRs) over history in line with what previous studies have found.*
  We calculated the undiscounted net export revenue BCR of the USDA Export Market Development Programs (including both USDA expenditures and cooperator contributions) to be 28.3. In other words, over their history, the programs have generated a net return of $28.30 in additional export revenue for every dollar invested in export promotion

In answer to the third critical question, the study concluded that the USDA Export Market Development Programs:

- *Contribute substantially to the profitability of the U.S. farm economy.*
  The study concluded that the USDA export promotion programs boosted annual average farm cash receipts by up to $8.7 billion (2.8%), net farm income by up to $2.1 billion (3.7%), farm asset value by up to $1.1 billion (0.1%), and employment in the agri-food sector by up to 93,900 jobs (2.4%).

- *Benefit the entire U.S. economy.*
  The study also concluded that the positive impact of the USDA Export Market Development Program on the agricultural sector has generated multiplier effects across the entire economy like the ripples you make in water after an initial splash. The results show that on average over the 2002-2014 period, the programs have added up to $39.3 billion in economic output, up to $16.9 billion in GDP, and up to $9.8 billion in labor income to the U.S. economy.

- *Create jobs.*
  Finally, the study also concluded that the USDA Export Market Development Programs have added up to an annual average of 239,800 full and part-time jobs across the entire economy, reducing unemployment by up to 3%.

After concluding that study, my colleagues and I were asked to use the models and analytical procedures we developed to provide guidance on the impacts of alternative increased funding scenarios for USDA's Foreign Market Development Program (FMD) and Market Access Program (MAP) and industry export market promotion contributions on export revenues, the farm economy, and the overall macro economy. Two future funding scenarios were simulated with our models:

- *Scenario 1:* Government expenditures for MAP and FMD were doubled over five years through annual increments of $46.9 million to a total of $469 million (double the base year) with cooperator contributions increasing approximately 10% in the first year to $515.6 million and then remaining flat at that level for the following four years.
- *Scenario 2:* Government expenditures for MAP and FMD were again doubled over five years as in the first scenario but cooperator contributions were increased by 50% over that period through annual increases of $46.9 million for a total of $703.6 million by the end of the five year period.

The analysis of these two future funding scenarios use the base starting point for MAP and FMD combined funding of $234.5 million and cooperator contributions of $468.7 million. The 50% increase in cooperator contributions in the second scenario is reasonable based on interviews that we conducted with MAP and FMD participants in the original study. All of those we interviewed indicated that they would expand their market promotion activities if funding for FMD and MAP programs was increased because of the effectiveness of their current activities. Some also responded that they would expand their market promotion offices overseas in that case.

The analysis concluded that the additional investments under both scenarios would generate high benefit-cost ratios (BCRs) of $18.2 for every additional dollar invested in export market development under Scenario 1 and $16 for every additional dollar invested under Scenario 2. In addition, as illustrated in Figure 2 and shown in Tables 1 and 2, the future funding analysis concluded that:

- *Export gains would be substantial under both scenarios.*
  The value of U.S. agricultural exports would increase by an annual average of $3.4 billion and $4.5 billion under Scenarios 1 and 2, respectively (Figure 2). That would add up to an export value gain of $17.1 billion and $22.5 billion, respectively, under the two scenarios over the entire five-year period.
- *Gains to the farm economy would be equally substantial under both scenarios.*
  - Farm cash receipts would increase by an annual average of up to $2.2 billion under Scenario 1 and up to $2.9 billion under Scenario 2. Over the entire 5-year period, the farm cash receipt gain would be up to $11.1 billion under Scenario 1 and $14.6 billion under Scenario 2.
  - Net cash farm income would increase by an annual average of up to $0.5 billion and $0.7 billion, respectively under the two scenarios for a 5 year gain of up to $2.7 billion and $3.5 billion under Scenarios 1 and 2, respectively.

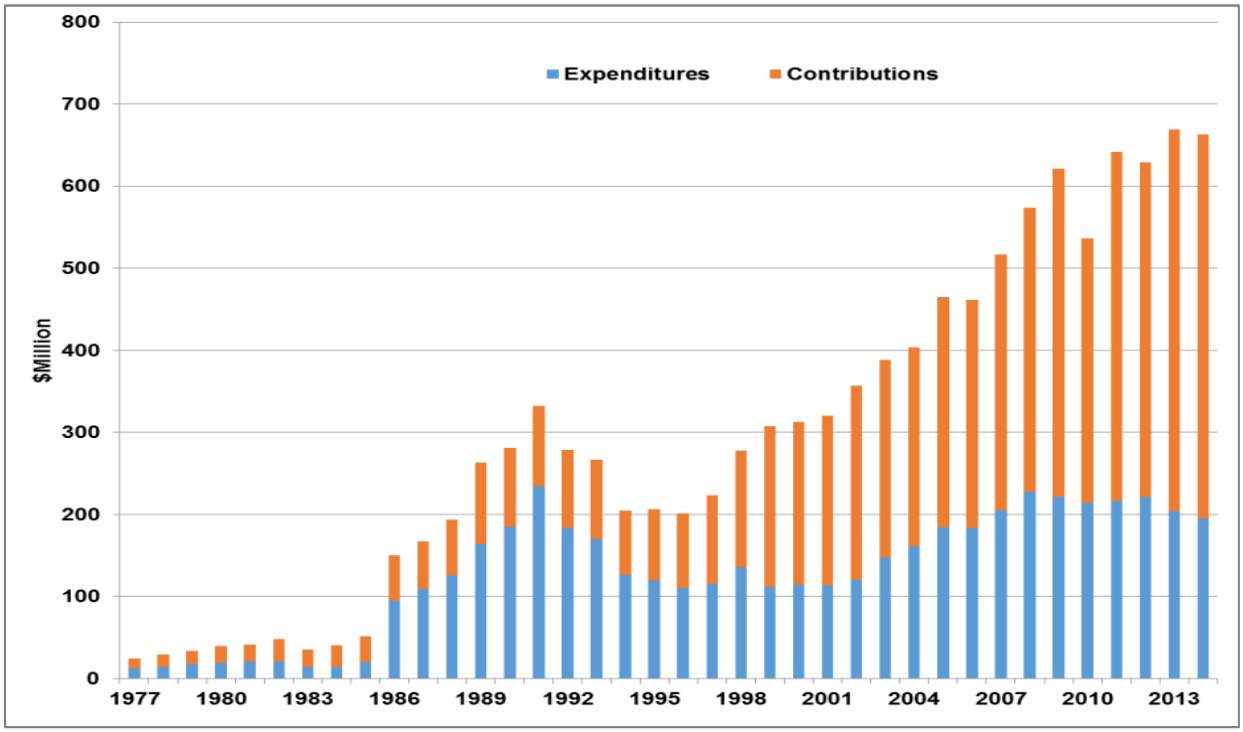
- Farm asset values would increase by an annual average of up to $0.29 billion and $0.4 billion and up to $1.5 billion (less) and $1.9 billion over the entire 5-year period.
- Up to 24,200 new jobs would be added in the agri-food sector under scenario 1 and up to 31,900 new jobs under Scenario 2.

- *The overall U.S. economy would experience a substantial multiplier effect from the farm economy boost under both scenarios.*
  - U.S. output (sales) would increase by an average annual of up to $10.6 billion and $14.0 billion under the Scenarios 1 and 2, respectively and by a total of up to $53.1 billion and $70.0 billion over the entire five-year period of analysis.
  - U.S. GDP would be higher by up to $4.5 billion and $6.0 billion each year on average under Scenarios 1 and 2 for a total of up to $22.7 billion and $30.0 billion, respectively, over the entire five-year period under the two scenarios.
  - U.S. labor income would be higher by up to $2.6 billion and $3.5 billion on average each year under Scenarios 1 and 2 and by up to $13.1 billion and $17.5 billion over the entire five-year period.
  - U.S. employment would increase by up to 64,000 new jobs under Scenario 1 and up to 84,600 new jobs under Scenario 2.

In conclusion, our critical analysis of the USDA Export Market Development Programs demonstrated clearly that the public-private partnership to promote U.S. agricultural exports under the FMD and MAP programs has been and continues to be a highly successful and cost-effective means of strengthening the profitability and maintaining the viability of the U.S. farm economy. In addition, the USDA Export Market Development Programs are clearly pro-growth for the entire U.S. economy. The benefits of export promotion to the farm economy multiply through the economy adding importantly to our national output, GDP, labor income, and level of employment. An incremental increase of $46.5 million annually over the next five years to these historically successful programs along with an expected 50% increase in contributions to the program by private sector cooperators would return $16 dollars in additional export revenue for every dollar invested and generate up to an additional $3.5 billion in net cash farm income, $30 billion in additional U.S. GDP, and up to 84,600 new jobs. I would be hard-pressed to name any other U.S. farm program that has been as consistently effective over such a long period of time in working to support our farm economy while supporting the growth of the entire U.S. economy and at the same time generating a high return on the investment of farmer and taxpayer funds.

Thank you, Mr. Chairman. I would be glad to try and answer any questions.

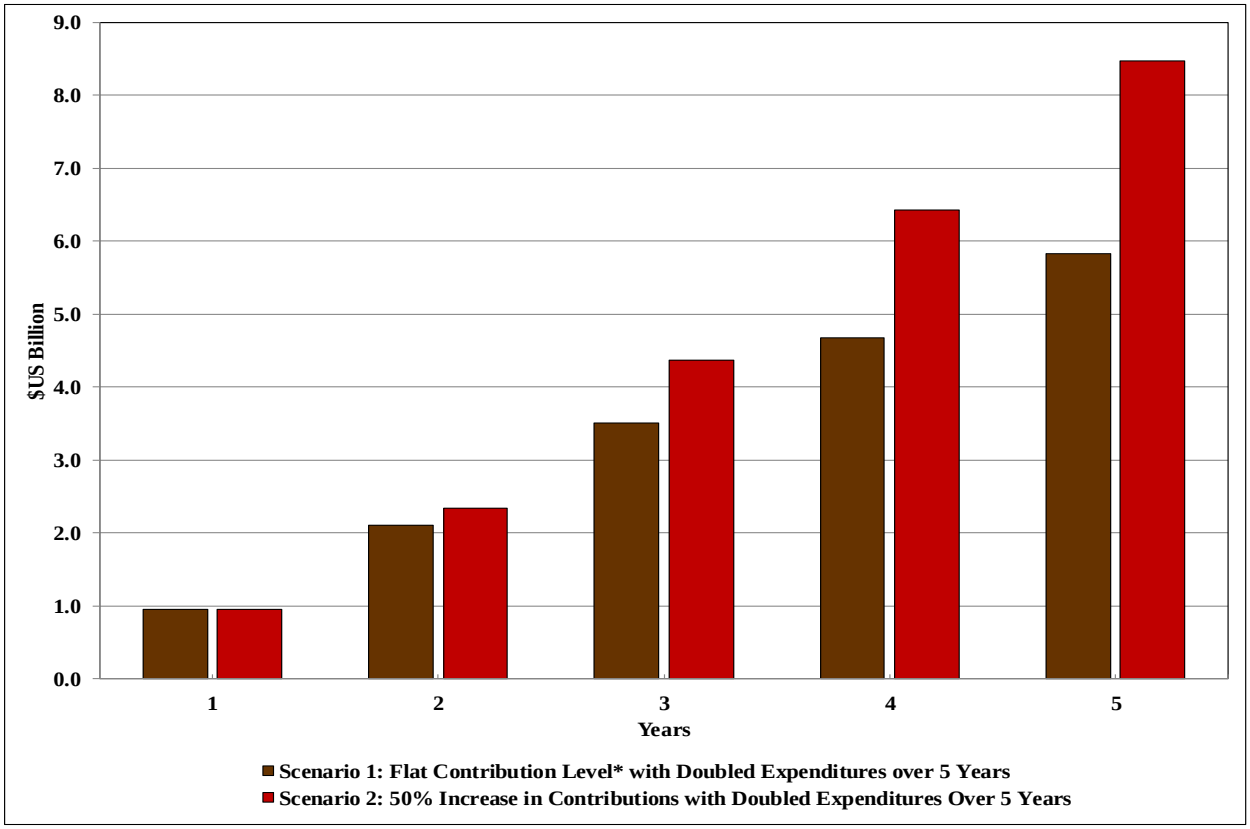
Figure 1: USDA Export Market Development Programs Funding[1], 1977-2014



Source: FAS/USDA

[1] Includes government expenditures on market promotion through the FMD and MAP Programs and industry contributions. All data converted to a calendar year basis.

Figure 2: Simulated Annual Changes in U.S. Export Revenue Achieved Under Agricultural Export Funding Scenarios 1 and 2



* 10% increase in first year over baseline and then flat for next four years.

Table 1: General Economy Impacts of the Funding Scenario 1 Relative to the Baseline Funding Scenario, Years 1-5

Variable	Flat Funding Base Value[a]	Less than Full Employment		Full Employment	
		Change	Percent Change	Change	Percent Change
Agriculture Sector	**$US billions**	**$US billions**	**%**	**$US billions**	**%**
Farm cash receipts	321.2	2.2	0.7	1.8	0.6
Net cash farm income	63.9	0.5	0.8	0.5	0.9
Farm assets	2,161.4	0.29	0.01	0.19	0.01
	1,000 jobs	**1,000 jobs**		**1,000 jobs**	
Employment in agri-food sector[b]	3,900.4	24.2	0.6	17.2	0.4
U.S. Economy	**$US billions**	**$US billions**	**%**	**$US billions**	**%**
U.S. Output (Gross Sales)	25,070.0	10.6	0.04	1.3	0.005
U.S. GDP	14,522.5	4.5	0.03	0.8	0.006
U.S. Labor Income	9,017.0	2.6	0.03	0.3	0.004
	1,000 jobs	**1,000 jobs**		**1,000 jobs**[c]	
U.S. Employment	173,414	64.0	0.04	--	--

Note: -- = Not available as an output from this analysis.

[a] The base value is for the year 2010. The "base value" is the average annual level of a variable in the absence of the promotion program. Some variables such as U.S. economic welfare and labor wage do not have a base value because the models only calculate the change in those variables and not a base value.

[b] The base employment value is measured as actual 2010 jobs as reported in IMPLAN. In the full employment analysis, total U.S. employment is held fixed but labor is mobile across sectors of the economy.

[c] The assumption of full employment by definition means that all labor is fully employed so that any change in the economy cannot impact the level of employment.

Table 2: General Economy Impacts of the Increased Funding Scenario 2 Relative to the Baseline Funding Scenario, Years 1-5

		Less than Full Employment		Full Employment	
Variable	**Flat Funding Base Value[a]**	**Change**	**Percent Change**	**Change**	**Percent Change**
Agriculture Sector	**$US billions**	**$US billions**	**%**	**$US billions**	**%**
Farm cash receipts	321.2	2.9	0.9	2.3	0.7
Net cash farm income	63.9	0.7	1.1	0.7	1.1
Farm assets	2,161.4	0.4	0.02	0.3	0.01
	1,000 jobs	**1,000 jobs**		**1,000 jobs**	
Employment in agri-food sector[b]	3,900.4	31.9	0.8	22.7	0.6
U.S. Economy	**$US billions**	**$US billions**		**$US billions**	
U.S. Output (Gross Sales)	25,070.0	14.0	0.06	1.7	0.007
U.S. GDP	14,522.5	6.0	0.04	1.1	0.007
U.S. Labor Income	9,017.0	3.5	0.04	0.4	0.005
	1,000 jobs	**1,000 jobs**		**1,000 jobs[c]**	
U.S. Employment	173,414	84.6	0.05	--	--

Note: -- = Not available as an output from this analysis.

[a] The base value is for the year 2010. The "base value" is the average annual level of a variable in the absence of the promotion program. Some variables such as U.S. economic welfare and labor wage do not have a base value because the models only calculate the change in those variables and not a base value.

[b] The base employment value is measured as actual 2010 jobs as reported in IMPLAN. In the full employment analysis, total U.S. employment is held fixed but labor is mobile across sectors of the economy.

[c] The assumption of full employment by definition means that all labor is fully employed so that any change in the economy cannot impact the level of employment.