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Discussion

Michael Reed
University of Kentucky

I found these papers very enlightening. They have focused on some issues that are very important for present-day generic commodity promotion and research programs. However, I am a trade economist, so my comments will focus on the foreign promotion programs that have become so important in the last decade. I will highlight two issues, U.S. government support to promotion programs and how international promotion programs differ from domestic promotion programs. These issues were not fully addressed by the presenters, yet many of the ideas they bring to the table have ramifications for these two topics.

The paper by Watkinson presents a very useful historical background for commodity checkoff programs, but it also places current promotion and research programs in their proper context. Anyone interested in how these programs developed and their current legal challenges should pay close attention to this paper. He observes that these programs began as producer-funded programs aimed at "moving commodities" or increasing sales. Watkinson makes a strong argument that because these programs are producer-funded, they should be controlled by producer boards without significant government interference.

When the federal government subsidizes these promotion and research programs, however, they become part of a government program and must be subject to more scrutiny. That is when the desires of producer groups may conflict with the desires of the public. The federal government clearly still views "moving commodities" as the objective of these generic promotion programs. However, there are some observers who believe there should be a broader public benefit for such government expenditures—simply moving commodities is not enough to justify government subsidies.

The paper by Kinnucan and Ackerman presents more new conceptual material than the other papers. They begin by giving an historical background to foreign market development activities. Then they list reasons why the public should support non-price export promotions. I find it interesting that they omitted the most obvious reason for such support: transferring money to the agricultural sector. In fact, I find only one of their reasons for government financial assistance credible—to save money on commodity programs. I don't believe that commodity promotions help much in sectoral adjustment and the collective good aspect of export promotion only means that the government should help producers get together to fund the promotions. There is no justification for a federal subsidy from the collective good nature of the problem (remember, that is why there are checkoff programs).

As I stated earlier, I believe the true intent of the government regarding export promotion policies is the same as the intent behind producer checkoff programs: to increase sales. The Congress does not

particularly want to save budget because most of the money in these programs is spent on products that have no deficiency payments, therefore success would not reduce government outlays. Still, from a purely conceptual viewpoint, there is little justification for government involvement other than as a transfer to agricultural producers and agribusinesses.

It is natural that the public gets upset when these programs are applied to the value-added subsectors because the public is not knowledgeable of (or fully committed to) the government's programmatic objectives. When the Foreign Agricultural Service (FAS) approves an Egg McMuffin® promotion in Hong Kong or a french fries promotion in Japan, FAS sees such activities increasing U.S. commodity sales. Yet, a U.S. taxpayer sees this promotion as a subsidy for a Fortune 500 agribusiness (McDonald's).

It is interesting that there is a much better justification for public funding of commodity research because of the spillover benefits among commodities. Understanding the Japanese distribution system for beef will help the U.S. sell more beef, other meat products, and processed foods in general because there are general aspects of distribution that are common among those products. Yet, very little of the Market Promotion Program (MPP) or Foreign Market Development (FMD) monies are spent on research.

If savings on commodity programs are the only justification for federal funding of international promotions, other than wanting to subsidize agricultural producers and agribusinesses, then the Kinnucan/Ackerman observation that successful promotion programs (from a public view) must increase domestic price is quite accurate. Increasing domestic price is the only way there is budgetary saving for the government (that is reducing the difference between the target price and the market price). I wonder how many program evaluators realize that increasing price is a crucial measure of success, not moving commodities. Because if export promotions only generate increased supplies without a U.S. price increase for the commodity, they result in no budgetary savings.

I found the exercise on calculating the optimal global budget for international promotions quite interesting. My guess is that the elasticities used in the calculations are probably too small in absolute value, making the estimated optimal expenditures too large. In addition, the assumption that the government funds 50 percent of current international promotion programs underestimates current promotional spending. Many agricultural producers and agribusinesses fund international promotions, yet do not participate in MPP or the FMD program.

These calculations on the optimal global budget are fraught with much more error than domestic advertising calculations because international promotions have more spillover effects. When a U.S. commodity group promotes a generic product overseas, domestic producers and third country competitors also benefit if the product is truly generic. Optimal promotion budgets are higher if the product is differentiated from products of other competitor countries. A good example is beef, an industry in which the U.S. produces a markedly different product than most other countries. Promotions will have a much larger, positive effect not only because consumption of American-style beef is new to the culture, but also because no other country can supply that type of beef. This contrasts sharply with international promotions of more generic commodities such as corn, soybeans, cotton

or peanuts. Those differential effects are difficult to quantify in an optimal advertising model.

This distinction concerning differentiated products by country is important enough that I feel Kinnucan and Ackerman should add a sixth law to their list. Export promotion should be higher for products that are "new" to a culture and that are differentiated from other third country suppliers. This law then deals with the amount of promotion spillover accruing to countries outside the United States.

Forker et al. give a good overview of reasons why promotion programs should be evaluated on economic terms. I find it interesting that they feel it is incumbent on commodity groups to educate the public about product characteristics. Thus, there is a public interest in domestic commodity promotions and more of a justification for public funding of domestic promotions than for international promotions. Yet, the federal government puts much more money in international promotions than domestic promotions. Another puzzle!

I fully agree with Forker et al. when they speak of third party evaluations of promotion programs. I am familiar with instances in which a consulting firm will design a promotion program, conduct the program and evaluate the program. Not surprisingly, the evaluation comes out extremely positive. This happens even when there is a substantial government subsidy through MPP. This simply is not right. I believe that third party evaluations should be required if there is federal money involved in the promotion. This will minimize conflicts of interest and increase public confidence that the dollars are spent wisely.

Reading these papers and sitting through other parts of the conference made me reflect a bit about how all these activities developed and how they are currently planned and evaluated by our government. There is a substantial amount of money going into these programs and we, as agricultural economists, do not understand their full effects. There should be more research into cross-commodity effects (as Forker et al. argue) to make sure that the impacts of the various promotions do not cancel one another. Further, if the government is paying part of the cost, it should invest in those commodities that more fully meet its programmatic objectives. Research is needed to see if the promotional spending pattern fits the laws outlined by Kinnucan and Ackerman.

Given the current concern with government spending, it is incumbent upon organizations that receive government monies to make sure these monies are used wisely and that these programs serve the public good. This means that programs needed to be adjusted as political and economic conditions change. It also requires that these programs be evaluated frequently to judge effectiveness. The public will not pay for subsidies to major multinational food firms unless there are clear public benefits. I am afraid that many of the export promotion programs must be refocused or they will receive even smaller federal appropriations.