DISEQUILIBRIA

. . . when things don't fit and other thoughts

James P. Houck on

Foreign Agricultural Assistance It's Mostly A Good Thing for U.S. Farmers

Spending public money for foreign aid has long been unpopular with lots of Americans. Spending it for agricultural assistance abroad is especially unpopular nowadays with U.S. farmers and many agricultural organizations. Their view is that more foreign agricultural development is simply another threat to our already dismal farm export markets.

The argument is that we teach foreigners how to grow commodities that we are good at producing ourselves. Then they do it, replace our exports, and leave American farmers holding the bag. These aid opponents are critical of agricultural assistance dispensed by government agencies like USAID, by Land Grant schools like the University of Minnesota, and by U.S.-supported international organizations like the World Bank.

Opposition Misplaced

However, an analysis I completed recently shows that this opposition is misplaced and myopic for a large bloc of poor nations. First consider forty eight nations with annual 1984 per capita incomes less than $1,500. These are the World Bank's "low income" and "lower-middle income" economies for which suitable data are available.

They are representative of the approximately 76 nations that make up this total category and together account for 65 percent of the world's population. At the upper end is Colombia with an income of $1,430 per person. At the lower end is Ethiopia with only $120 of income per person income in 1984. Upper middle income countries like Korea and Argentina are excluded here.

Within these 48 countries, most of which are in Africa, Asia, and Latin America, agriculture forms the bulk of national economic activity. Any improvement in agricultural productivity, whether achieved with foreign assistance or not, is clearly translated into overall national economic growth.

Farm Gains Mean Income Gains

My analysis shows that a 10 percent gain in farm productivity (measured by value-added per agricultural worker) was clearly associated with an average 9 to 12 percent gain in per capita income across these nations in 1983 and 1984. This is not such a surprising conclusion. Yet, the way their agricultural *trade* behaves as total income rises is surely not widely appreciated.

Income Gains Mean Import Gains

Among these 48 nations, a 10 percent increase in per capita income was strongly associated with an average 10 to 11 percent expansion in their agricultural imports. This relationship was present no matter whether imports were measured in terms of only grains like wheat, corn, and soybeans or in terms of all foods including grains, fats and oils, processed food products, tobacco, and beverages.

Hence, for the poorest nations on this planet, a strong case can be made that advances in agricultural productivity are associated with *increases* in their imports of cereals and other agricultural products. The connection comes via the positive income effect of general economic development.

For these countries, investments in agricultural development through technical assistance and education are not detrimental to U.S. farm export interests. They are generally beneficial. Of course, if U.S. products fail to share in international market growth, then our pricing, exchange rate, and trading policies are at fault—not our assistance efforts.

What about the upper-middle income nations including those with annual per capita GNP's between Chile's $1,700 and Singapore's $7,300. Lots of controversy surrounds almost any assistance, agricultural or otherwise, to nations in this category. Several, like Brazil and Argentina compete with the United States for farm product markets around the globe. Several are mired in deep international debt problems. And several are enmeshed with the United States in sensitive political and military affairs.

Not surprisingly, the approach that succeeded with the lower-income group was less revealing with this middle group. Even so, the evidence as a whole does *not* point toward a negative relation between agricultural productivity and imports of food and related products by this group.

In addition, no clear relationship emerged between value added in agriculture and farm *exports* from this group. Hence, the view that agricultural assistance always leads directly to increased competitive supplies on world markets is not borne out in cross-country comparisons.

Naturally, specific episodes of trade displacement in some products and countries can be identified and perhaps associated with agricultural assistance. However, wider evidence shows that the burden of proof clearly rests with those who insist that agricultural assistance for poor nations is usually a bad thing for American farmers. On the contrary, it is mostly a good thing. C

James P. Houck is Professor, Department of Agricultural and Applied Economics, University of Minnesota.

Technical Paper Available

A technical paper on foreign agricultural assistance is available from the author. Write to James P. Houck, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, MN 55108. Ask for Staff Paper P86-50.