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## Public Policy on Program Evaluation and Disclosure of Program Expenditures

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About \$1 billion is diverted each year from the retail to farm income stream to support commodity promotion programs. Since this is not a trivial amount, this immediately raises a basic question: Does commodity promotion represent the best use of the funds from that income stream? Would farmers, consumers and/or society be better off if that money were invested in other ways, e.g., technology to further reduce production and distribution costs or improve quality? It is hard to answer that question without sound economic analysis.

In addition, up to \$200 million of federal funds are invested in export promotion programs each year. Some state governments also fund export promotion programs. Is this the best use of taxpayer money?

Given the substantial level of investment in commodity promotion, we advocate in this paper public intervention in the economic evaluation of domestic promotion and foreign market development programs. The purpose of the intervention would be to make sure that appropriate economic analyses are conducted to determine whether the programs satisfy the public interest. First, we will make the case for economic analysis and then the case for an appropriate amount of government intervention in economic evaluation.

### The Case for Economic Analysis

The stated purpose of most commodity promotion and market development pro-

grams is to increase producer income, or at least improve market conditions beyond what they would have been without the program. Since many forces other than commodity promotion and research programs influence market conditions and the demand for commodities, some form of empirical economic analysis is necessary to determine the net effect of the commodity promotion effort. For example, if one observes an increase in the sales volume of the commodity, is that increase due to promotion and market development programs or is the increase due to a price decrease for the commodity, a price increase of a competing commodity, or some other economic or social force? The only way an observer can have any degree of confidence that a program is effective is through an appropriate form of economic analysis. Such an analysis would address the issue of the extent to which the promotion program expands the aggregate demand for the commodity, i.e., the extent to which sales volume and/or price are greater than they would have been without the program effort.

The above argument has to do with "common good" benefits of an activity and the manner in which the benefits and costs are shared from mandatory checkoff programs. Economic analysis should also be conducted to determine the extent to which the common cost, that is, the assessment, can be justified. From society's perspec-

tive, the optimum combination of brand (firm) and generic (collective) activity should be realized. For some commodities, the current assessment might be less than optimum. A firm should be assessed only if the funds collected from that firm yield a greater benefit to the firm when invested in collective action than if those funds had been invested in a marketing or production effort unique to the firm.

In addition to determining whether commodity promotion increases sales volume and/or price, economic analysis is also important in determining whether resources are being allocated optimally. For example, economic research may find that a specific commodity promotion program increases sales and price. But this does not tell us whether the individual program funding levels are optimal, i.e., whether overall marginal benefits equal marginal costs and/or if the marginal revenues from the various programs are equated. It is therefore important for economic analysis to look at optimal allocations as well.

The stated purpose of most federal or state mandated commodity promotion and market development programs is to increase producer income (above what it would be without the program). Producers of the commodity in question have a right to know whether or not the program is, in fact, providing them increased benefits. They should demand that economic analyses be done to determine the extent to which demand and/or price for the commodity have been enhanced due to the program.<sup>1</sup>

Commodity promotion checkoff programs exist only if the majority of the affected producers approve the program by referendum and only as long as the secretary of agriculture judges that the program is fulfilling its intended purposes. Producers need information about present and potential

economic impacts of the program so they can vote intelligently. In addition, the secretary needs sound economic analysis in order to make an informed decision about whether the program is achieving its intended purpose.

There is also a broader issue of cross commodity effects. If one commodity group advertises, will that effort affect positively or negatively the sales volume or value of another commodity? This public policy issue can only be addressed by an economic model that accounts for cross commodity effects. The staff and board of an individual commodity promotion organization have no incentive to do this kind of research or provide the data on advertising and promotion program efforts necessary to address this issue.

### The Public Interest

Why does this become a public interest issue? The large domestic programs are supported directly by producers through mandatory checkoffs authorized by federal or state legislative bodies. The foreign market development programs are funded in part by federal or state appropriations. Thus, in both cases there is a public interest issue. In the first case, the power of government is used to establish a mandatory assessment on all or a specified number of the producers of a commodity. This imposes a cost on the distribution of the commodity, a common cost to all producers. Since it operates like an excise tax, the actual economic cost of the promotion effort is shared by producers, processors and consumers alike (Chang and Kinnucan). Therefore, society as a whole has an interest in whether or not this is an economically or socially efficient use of these funds. In addition, the individual firms that are as-

sessed have an interest in knowing that the collective action moves them closer to an industry optimum level of collective and individual firm action.

In the second case, the public interest is obvious. Taxpayer funds are used in direct support of foreign market development activities. In most instances, government funds are commingled with matching private funds in support of a wide range of promotion and other market development activities. Again the question needs to be asked about the extent to which these joint program activities result in an efficient use of both public and private funds.

### **The Public Interest by Interest Groups**

For purposes of clarification, we feel it appropriate to discuss the interest in or need for economic analysis and policy concerning promotion evaluation by interest groups. Three interest groups can be identified—farmers who are assessed, consumers who buy the products and society as a whole.

#### **Farmers**

The underlying purpose of commodity promotion programs from the farmers' viewpoint is to increase the demand for their commodity in order to increase their income. As businesspeople, they would like to be assured that the investment (the assessment) yields a positive return. In fact to be of benefit to farmers (and to society) the return-on-investment should be at least as large as the alternative use of those funds if retained by farmers. This can be measured in aggregate, but probably only deduced for an individual farmer.

One way to determine benefits to farmers is to measure the change in producer

surplus associated with the promotion effort. In layman's language this represents the change in net revenue that can be directly attributed to the promotion expenditures. Valid estimates of the magnitude of this change are necessary so that those voting and providing the funds can make rational decisions.

#### **Consumers**

The benefits to consumers can be represented by the value of the information that promotion programs provide them. A reasonable proxy for the value of this information is the extent to which the advertising program, by itself, increases the demand for the commodity above what it would have been without the program. This, in and of itself, demonstrates that the information has value; consumers are willing to pay more for the commodity. This can be measured. But we need to take into account all of the important factors that influence demand for the commodity. The proxy for the value of the information to consumers is the change in consumer surplus that can be attributed to the advertising and promotion programs. If there is no increase in demand, it can be assumed the information being conveyed has no value. If there is no increase in demand there is no increase in producer benefits either. So if we can measure the magnitude of the shift in demand we can determine the extent to which these programs benefit consumers and producers.

#### **Society**

To benefit society in general, these programs must result in an efficient allocation of resources. Resources can be considered efficiently allocated if the checkoff funds and each of the program activities are at a level at which the last unit of expendi-

ture yields an equal increase in revenue to the commodity group. In addition, the funds must be devoted to activities that yield a return equal to or greater than if invested in any other activity. This is a concept that is easy to state but difficult to apply. In practical terms, this means that the promotion boards and staffs and other interested parties need to continually conduct research to search out the most effective way to provide useful information to consumers and thus enhance their welfare and that of the producers who are providing the checkoff funds.

### **The Case for Public Intervention**

Public intervention is appropriate for several reasons. First, the declaration of policy in the enabling legislation for the existing programs states that the programs are in the public interest (Forker and Ward, p.87). The details of the declaration of policy discuss the importance of the commodity to the economy and the potential benefits to consumers, processors and producers of the commodity. Some method of evaluation is needed to confirm that the program as administered is in fact serving the public interest. Individual commodity groups which conduct the necessary research for their own use have no incentive to answer this question for society.

Second, federal and state appropriations are used to support foreign market development programs. This is justified on the grounds that an expanded market for the commodity is good for the economy. Congress and state legislatures need to know the extent to which these funds provide economic benefits to the commodity group and to the economy in order to make informed decisions how much money to appropriate.

Third, the constitutionality of mandatory commodity checkoff programs is currently being questioned. The Ninth Circuit Court in California has ruled that the promotion portion of the federal Almond Order for California is in violation of the First Amendment of the Constitution. In the decision, the judge implied that there was no evidence to indicate that the program was serving the government's interest. Indeed no such evidence was introduced. A beef producer in Kansas is also challenging the constitutionality of mandatory checkoffs. In the complaint he charges that the Beef Promotion Act and Order violate "the right to free speech, free association, and freedom of belief guaranteed by the First Amendment" (Watkinson et al., p.11-12). For the merits of the policy to be appropriately considered, sound economic analysis is essential.

### **Data Requirements**

Enough research has now been completed so that appropriate conceptual frameworks and statistical methods of analysis are well known (Forker and Ward). To examine economic benefits, the researcher has to establish the relationship between the level of program effort and the aggregate sales and/or grower price of the commodity. Thus, measures of program efforts (advertising, promotion, education, public relations, etc.) along with measures of total sales (or consumption) and commodity prices are essential. But, other factors beyond the generic program efforts influence sales volume and price. Therefore it is just as essential to have valid measures of other factors such as the prices of competing goods, demographic changes, and purchasing power. The following are some comments about important data requirements:

- *A Measure of the Advertising and Promotion Effort.* For most purposes, the best measure is the dollar expenditure value on each type of program activity. This type of data is best if obtained from the promotion organization and the agency actually placing the advertisements or conducting the program effort. Promotion organizations are usually willing to provide this information to analysts working for them under contract. In this way they can control the use and confidentiality of the data. When using this data in economic analysis, care must be taken to ensure that the expenditure numbers represent what actually happened within the specified time frames used in the analysis. Thus the data must be adjusted to account for advertising bonuses and credits, and gaps between delivery and payment. Ex-post audit or committed data seem to be appropriate measures of media advertising effort. In addition, differences in the quality or time of delivery must be recognized.
- *The Volume of Sales of the Commodity Being Promoted.* The best measure to determine a program's impact on the target audience is the volume of retail sales of the product identified with the advertising message. Since in some cases the concern is for returns to the grower investment, a reasonable proxy is the total volume of commodity moving into commercial channels either at the farm or wholesale level of trade. Aggregate data for sales of the commodity across broad market areas are often available from public

sources. Data for sales to target audiences are available only from private sources or have to be collected.

- *The Price of the Commodity Being Promoted.* The best measure to use for estimating shifts in retail demand is the price at retail for the product category being promoted. In most instances such prices are available only from private sources. To estimate the farm level impact, one must have information about farm level prices. Some aggregate information about farm or wholesale level prices is often available from public sources.
- *Other Necessary Data.* Other economic, social and demographic factors also influence the volume of sales and/or the price received for a commodity. The available supply often is the most important factor. The volume available will always influence the price received. But other factors include demographic information, consumer income levels, volume of sales, prices and advertising levels of competing commodities or products. Some of these data are available only from private sources. But much of which is needed here for macro program evaluation is available from public sources.

### Current Public Policy for Evaluation

Currently, the only enabling legislation that mandates any economic evaluation is that of the National Dairy Promotion and Research Board. No such requirement

exists in the enabling legislation for any other mandatory checkoff programs.

The legislative requirement for the dairy program has resulted in substantial efforts to evaluate the economic impact of the national dairy promotion program. Would this have been done anyway? The fact that more economic evaluation has been done on the dairy promotion program than on any other program is in part due to this mandated requirement. But in addition to the research being mandated, the national and regional dairy promotion organizations also support a substantial amount of economic analysis, with mandates only from the farmer boards.

The beef industry without the mandated requirement supports a substantial effort to evaluate the economic benefit of the beef promotion program to beef producers. The Florida Citrus Commission has its own staff to evaluate its program.

However, to our knowledge none of the other national programs and few of the state programs conduct the kind of economic analysis needed to address the question of the efficient allocation of their own resources, let alone the public interest question. For most, it makes more sense to invest the money directly in program activity or in diagnostic studies that can help them design better program activity. Others involve relatively small amounts of money and the cost of economic analysis would consume too large a portion of their budget. Nevertheless, it is in the interest of producers and society in general to have sound economic analyses of these programs.

### **Public Policy Recommendation**

Several alternative policies on program evaluation and disclosure of program expenditures are possible. Below we discuss the

options and then develop a single recommendation.

*Alternative Policy #1—no mandatory requirement for economic evaluation or data disclosure.* This is the current policy for most of the federal and state checkoff programs. Under this policy, each promotion organization conducts economic analysis to the extent the staff and/or board feels the need to better understand the economic impact of what they are doing. If conducted properly, the results will assist in making allocation and level of funding decisions that will move them toward an efficient use of funds. In supporting economic analysis, the staff and board need to be prepared to accept negative results for some program elements and move money from them to other program elements with more positive responses. They must also be willing to accept the possibility that the return might not provide benefits in excess of the checkoff. Some organizations will share the results with the public, others will likely claim proprietary privilege on research results. The extent of economic analysis that might be conducted will depend on the interest and skills of management and board members. The cost of the evaluation would be borne by the commodity group doing the research and promotion effort. If the economic analysis is done it will likely be designed to satisfy the needs of the staff and board and enhance their ability to make program improvements based on the results. Organizations of all size budgets could handle this requirement.

*Alternative Policy #2—mandatory requirement for data reporting, no mandatory requirement for economic analysis.* Under this alternative the promotion organizations would be required to submit to some public

agency, presumably the U.S. Department of Agriculture, reports that summarize program expenditure data. The details would need to be worked out so the data could be used effectively by analysts working on public interest and policy issues. The amount of any additional economic analysis that might be conducted would depend on the interest and monetary support of government and academic policy analysts. Additional economic evaluation is likely, because agricultural economists in academic institutions and government agencies are responsible for conducting research concerning the effectiveness of agricultural policy and programs. Currently, much of the appropriate research is hindered by lack of good data. In this alternative, the promotion organizations would carry some but not all of the cost of data collection. The government or some other agency would have to cover the cost of handling the data and conducting the economic analysis unless an assessment were levied against all promotion organizations. Promotion organizations of all sizes could handle this requirement.

*Alternative Policy #3—mandatory requirement that each checkoff organization conduct economic analysis of their own program.* Under this alternative, the commodity promotion organization would be required to conduct an economic evaluation of its program, say annually. They might be required to publish the results for public consumption. It would seem most appropriate that the organization be required to make the results known to all those who provide funds under that mandatory commodity checkoff program. The danger of this kind of requirement is that a minimum economic evaluation might be done just to satisfy the mandate. There might also be a concern that only positive results would be pub-

lished. This kind of requirement would not necessarily result in the organization conducting the kind of economic evaluation that would assist in optimum allocation decisions within the program. Small promotion organizations might also find the cost of the required economic analysis burdensome.

*Alternative Policy #4—mandatory requirement for data reporting and a mandatory requirement that economic analysis be conducted and reported by a third or disinterested party.* Under this alternative, it would be important to clearly establish the purpose of the economic analysis. It could be to merely measure the economic impact of the existing programs to satisfy the public concern about the appropriateness of the mandatory checkoff legislation. It could also be designed to develop evaluation methodology to assist the promotion organizations in arriving at the most appropriate checkoff level and the most effective allocation of funds. The third party requirement would help to ensure objectivity and the publication of results whether positive or negative. Funding for the third party analysis could be provided by the public sector or the promotion organizations could be required to support the evaluation on a prorated basis.

There are clearly trade offs among the four options. Furthermore, several other options could be laid out by making slight modifications in the extensive nature of the requirements or in the source of funding. It is our view that the most effective alternative is Alternative #2. This alternative would place the burden of providing data on the promotion organizations, the most logical way to get it collected. Once the data is available, the promotion organization or some public institution could use the data to



conduct economic evaluation to address any specific policy issue. The data could also be used by anyone to develop appropriate evaluation methodology that could be used by the promotion organizations or a third interested party. The data could also be used for third party evaluation. If the data is publicly available, even if treated as privileged information, the promotion organizations could obtain economic analysis that might serve their own purpose more economically than if the data were not readily available to analysts.

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