Impact of U.S. Agricultural Trade

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Farm exports are vital to the economic health not only of U.S. farmers but of many industries and the Nation as a whole. Today, production from more than a third of total U.S. cropland moves into export channels. Between one-half and two-thirds of U.S. wheat, rice, soybeans, and cotton, and about one-third of the corn crop are exported each year, generating employment, income, and purchasing power across the economy. For example, farmers' purchases of fuel, fertilizer, and other inputs to produce commodities for export create additional economic activity in the manufacturing, trade, and transportation sectors.

Impact of Exports

U.S. agricultural exports totaled $36.6 billion in calendar 1982, approximately $21 billion in raw commodities, $11 billion in processed products, and about $5 billion for transportation and trade services. However, looking beyond the direct value, a model developed by USDA's Economic Research Service reveals that these exports actually generated an estimated $81.8 billion in total business, with the additional $45.2 billion representing the cost of supporting activities required to produce and transport products for export (figure 1). Of this, $9 billion went to the farm sector for raw farm commodities processed for exports (figure 2). Approximately $3 billion was attributed to the food sector, while other manufacturing sectors, including petroleum refiners and tobacco and fertilizer manufacturers, accounted for $15.9 billion. Additional trade and transportation totaled $4 billion and other services, such as utilities, amounted to $13.3 billion.

Each dollar earned from agricultural exports, then, stimulated another $1.23 of output in the U.S. economy, a multiplier effect of 2.23. Approximately 80 percent of this additional economic activity accrued to the nonfarm sector.

In 1982, an estimated 1.1 million full-time civilian jobs were related to U.S. agricultural exports. Of these, around a half million U.S. farmworkers—15 percent of the farm labor force—could have been considered producing for export.

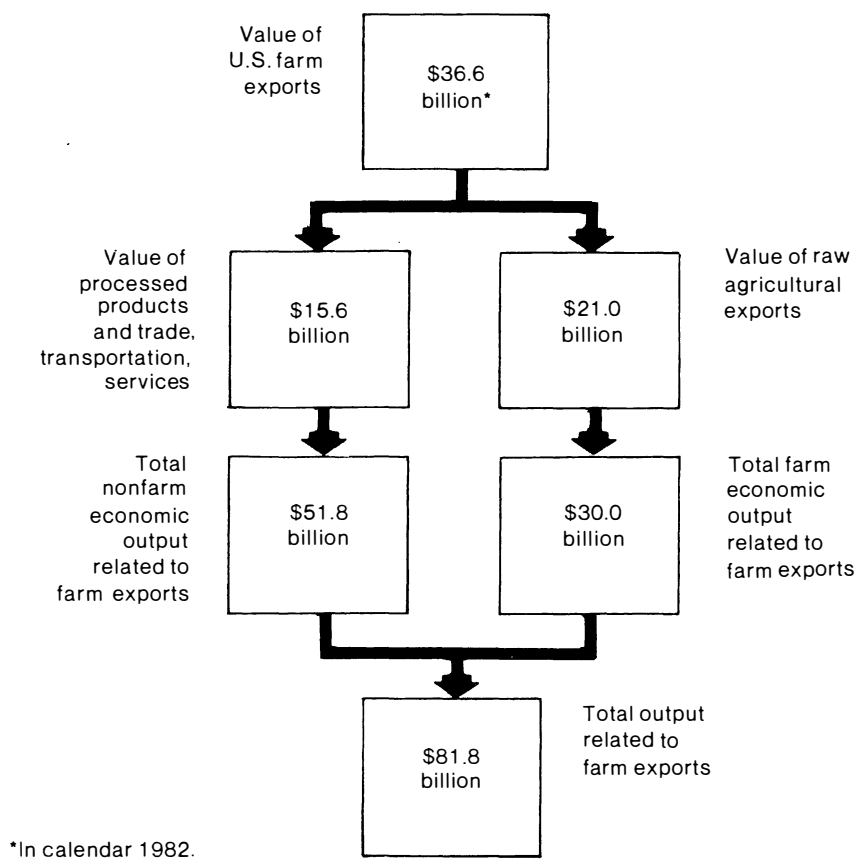
In addition, more than 580,000 jobs in the nonfarm sector were related to assembling, processing, and distributing agricultural products for export. About 60,000 of these were in food processing, 270,000 in trade and transportation, 110,000 in other manufacturing sectors, and 140,000 in other services.

Impact of Imports

To provide a total picture of the economic effects of agricultural trade, it is also necessary to estimate the impact of agricultural imports on U.S. business activity. In 1982, the United States imported 15.2 billion dollars' worth of agricultural commodities, $5.3 billion of which was for complementary items, such as bananas, coffee, and tea not produced in the United States. The remaining $9.9 billion, 65 percent of the total, was for meat, dairy products, fruits, nuts, vegetables, sugar, and wine that compete directly with U.S. products.

In some trade categories, the United States offsets the value of competitive imports with export sales of other types of products in the same category. For example, purchases of imported edible and nonedible meat and poultry products totaled $2.1 billion (value at processing plant), about the same as exports. However, the United States bought 1.1 billion dollars' worth of frozen, canned, and dried goods last year, while export sales totaled $900 million. In the case of

Figure 1. Farm Export Impacts Flow Through U.S. Economy



*In calendar 1982.

sugar, U.S. imports amounted to $800 million, with no offsetting sales.

Using imported commodities instead of available domestic ones implies a reduction in the level of national income and employment. The effect on the U.S. economy of the $9.9 billion worth of competitive imports is estimated at around $26 billion. That is, for each dollar spent on these imports, approximately another $1.60 in supporting goods and services would have been needed if those items had been produced domestically, a multiplier effect of 2.6. The multiplier for competitive U.S. agricultural imports is larger than for exports because of the relatively greater amount of processed products.

An offsetting influence not reflected in the multiplier is the interdependence of U.S. trade with some of our trading partners. Because U.S. imports may provide foreign exchange for other nations to buy our exports, the effect upon the economy of importing $9.9 billion of competitive imports may actually be less than the estimated $26 billion.

Net Trade Benefits

The direct net value of U.S. farm trade in 1982 was around $21.4 billion—$36.6 billion in exports minus $9.9 billion in competitive imports and $5.3 billion in complementary imports. However, considering the additional business activity needed to produce the supporting goods and services for exports, together with the output lost by importing competitive farm products, a 1982 net trade benefits balance for agriculture is estimated at $50.5 billion. This reflected $81.8 billion of total output generated by farm exports, less $31.3 billion (including complementary imports) associated with agricultural imports.

U.S. agricultural trade has a positive effect on most sectors of the economy. The farm sector's approximately $30 billion worth of output associated with exports more than offset the $6.3 billion of farm output implicitly lost because of competitive agricultural imports.

Similarly, the U.S. economy, outside of farming and food processing, accrued a direct net (exports minus imports) benefit of $4.9 billion from agricultural trade. However, the total increase in economic output generated by these activities was $29 billion after considering the domestic output foregone through competitive agricultural imports.

The food processing sector is the sole exception to this pattern of very large net benefits from agricultural trade. In 1982, the food processing industry had a $2.3 billion surplus in direct trade, but a total net gain in output of only $3.3 billion.

Within this sector, processing of meat, grain, fats and oils, and miscellaneous foods gained from agricultural trade. This trade was not, on balance, beneficial to operators of dairy plants, sugar mills, canneries, or freezing and dehydrating, beverage and flavoring plants, and confectionary and baking companies because the business activity generated from exports was less than that implicitly lost from imports.

Balance of Trade

Agriculture's contribution to the U.S. balance of trade increased substantially during the 1970's. Net exports of U.S. farm products (exports minus imports) rose from about $1 billion in 1969 to nearly $27 billion in 1981. During 1982, agricultural exports of $36.6 billion partly offset a $57 billion deficit in nonfarm trade, reducing the total U.S. balance of trade deficit to approximately $21 billion. This represents a reversal from the early 1950's, when agricultural trade was in a deficit position and nonagricultural trade was in surplus. In those years, nonagricultural items posted a $4 billion positive trade balance, while agriculture was running a deficit of about $1 billion. □

Figure 2. Farm Exports Stimulate Added Economic Activity