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Agricultural Letter

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THE ECONOMIC ACTIONS recently taken by the Administration have improved the outlook for the agricultural sector during the remainder of the year. Although the precise effects of the economic actions taken and proposed are impossible to assess accurately at this juncture, the direction of the impact on agriculture can be foreseen in part.

Actions taken on the international front could have a significant impact on the agricultural sector. Both actions—the suspension of the convertibility of the dollar into gold or other reserve assets and the additional tax of 10 percent on goods imported into the United States will tend to strengthen the demand for U. S. agricultural products, other things being equal. To the extent that the value of foreign currencies move upward in relation to the dollar, U. S. agricultural commodities will become cheaper to foreigners relative to their domestic-produced commodities or those available for import from other countries. This, of course, is provided that countries revaluing their currencies do not impose import restrictions on U. S. agricultural commodities. Similarly, an upward adjustment in foreign currencies relative to the dollar would make the United States a less attractive import market for foreign-produced agricultural commodities. Additionally, the 10 percent tax on imported goods will tend to increase the price of imported agricultural commodities by a like amount, although the new tax does not apply to duty-free imports, such as green coffee and bananas or to commodities under special quota agreements, such as sugar and some meats and dairy products. Imported agricultural commodities exempt from the 10 percent tax would appear to represent about half the agricultural commodities purchased from abroad.

Some observers expect the actions taken on wages and prices to forestall the potential October 1 longshoremen's strike for Atlantic and Gulf Coast ports. A strike could have significant adverse effects on U. S. exports. Unlike manufactured products, agricultural production tends to be worldwide, and if imports are not available from one country, they can be obtained from another. Consequently, the loss of agricultural exports during a dock strike are not easily recovered. During a three-month East and Gulf Coast strike in fiscal 1969, it was estimated that the U. S. loss was around $200 million in agricultural exports.

Agricultural exports were running about 17 percent above the previous year during the first 11 months of the 1970 fiscal year—a record annual rate of around $7.8 billion. Imports have been above a year ago also but by a smaller margin —up 4 percent.

The proposed legislation to permit a tax credit on purchases of new machinery and equipment if adopted will also benefit many farmers. Such expenditures by farmers totaled around $4.4 billion last year, although all expenditures would not be fully eligible. The proposed full 10 percent credit would apply only to equipment with a "life" of more than eight years. Shorter-lived machinery would qualify for a lesser credit, and there would be no credit for equipment with a life of four years or less. A tax credit has about the same effect as a reduction in the price of a piece of machinery by the amount of the credit.

The Presidential action to freeze prices and wages for 90 days is apt to have only a minimal impact on the agricultural sector, although agricultural commodities are exempt from the price freeze. Since processors and retailers will be unable to pass any increase in prices along to consumers, price advances at the farm level will be limited to the extent to which processors and retailers are willing and able to absorb farm price increases by reducing profit margins. Moreover, prices of numerous farm commodities have been under downward pressure in recent months from increasing supplies, especially grain prices. Corn prices have plummeted in recent weeks as the prospective record crop approaches maturity. Prices at Chicago for number two corn currently are around $1.30 per bushel, compared with over $1.60 as recently as mid-June. This drop in prices has also spread to other grains but to a lesser degree.

Farmers could conceivably expect some relief from the upward advance in farm production cost, but here too the price freeze is apt to only have a minimal effect. Production items purchased from other farmers (feed, livestock, etc.) are, of course, exempt from the freeze as are interest charges on loans and taxes levied on real estate and personal property. Expenditures on such items typically represent more than two-fifths of total production expenditures by farmers during the year.

Other measures proposed—the repeal of the 7 percent excise tax on autos and the speed up in personal income tax exemptions—will affect farmers the same as other consumers. Car prices will be lower, and the income tax liability will be lower if enacted by Congress.

Special reports based on the 1969 Census of Agriculture, highlighting changes in Illinois, Indiana, Michigan, and Wisconsin agriculture are available. A similar report will be prepared for Iowa as data become available. Free copies may be obtained from the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago, Illinois 60690.

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