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AGRICULTURAL EXPORTS HELP BALANCE OF PAYMENTS

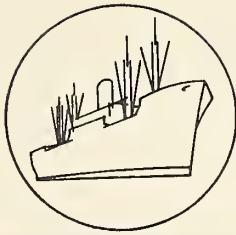
by

Robert L. Tontz, Harry W. Henderson, and McGehee H. Spears

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SPECIAL in this issue

AGRICULTURAL EXPORTS HELP BALANCE OF PAYMENTS

by

Robert L. Tontz, Harry W. Henderson, and McGehee H. Spears 1/

U.S. agricultural exports are one of the major bright spots in the unfavorable U.S. balance-of-payments picture. Our farm product shipments, which reached a record peak in 1964, are helping offset the dollar drain flowing in large part from U.S. investment abroad, cold war outlays, and tourist expenditures.

Large U.S. dollar deficits and losses of monetary gold are genuine cause for concern. Even though the United States is the principal banker of the free world, any potential weakness of the dollar poses the threat of serious monetary and trade problems for us and our friends abroad. Further expansion of exports, including U.S. agricultural shipments, is high on the list of measures advocated to correct the balance-of-payments problem.

Meaning of Terms

The role of agricultural exports in helping to stem the dollar outflow may be measured first by their contribution to the U.S. balance of trade. The balance of trade refers only to the difference (surplus or deficit) in value between merchandise exports and imports moving between the United States and the rest of the world. The U.S. balance of trade has been favorable for many years.

The balance of payments, as distinct from balance of trade, covers all types of economic transactions involving the exchange of goods, services, gold, and capital claims between residents of the United States and residents of the rest of the world during any given period. The trade balance, therefore, is only one factor -- but an important factor -- in the balance-of-payments computation.

The concept of a balance-of-payments surplus or deficit requires that a distinction be made between some international transactions and others. The U.S. balance-of-payments position is presently measured by the change in U.S. monetary reserve assets, including gold and U.S. short-term liabilities to foreigners. By this measure, the overall payments balance was in deficit by

1/ Robert L. Tontz is Chief of the Trade Statistics and Analysis Branch, Development and Trade Analysis Division, Economic Research Service; Harry W. Henderson is Assistant Director, International Programs, Foreign Market Information Division, Foreign Agricultural Service; and McGehee H. Spears is Assistant Chief of the International Monetary Branch, Development and Trade Analysis Division, Economic Research Service.

\$2.8 billion in 1964; U.S. monetary reserve assets declined by \$171 million (the net gold loss was \$125 million), and U.S. short-term official and banking liabilities and foreign holdings of other liquid assets in the United States increased by \$2.6 billion.

Dollar Exports

Although the U.S. balance-of-payments position continues unfavorable, it would be much worse were it not for the significant contribution made by U.S. agricultural exports. During 1960-64, the value of total U.S. agricultural exports rose from \$4.8 billion to a record peak of \$6.3 billion -- an increase of 31 percent. Most of this gain came from commercial sales -- the approximately 75 percent of total U.S. agricultural exports that are sold for dollars.

In 1960, the portion of U.S. agricultural commodity exports sold abroad for dollars totaled \$3,360 million. Every year since then, more has been sold for dollars than in the preceding year. In 1964, U.S. sales for dollars reached an alltime high of \$4,589 million. ^{2/} Selling for dollars in the foreign market helps in a very direct way to close the balance-of-payments gap (table 1).

Dollar "Earnings"

Besides U.S. exports of agricultural commodities for dollars, there are also imputed dollar earnings (and repayments on prior Title IV P.L. 480 credits) from U.S. agricultural exports under Government programs. The United States is getting helpful balance-of-payments assistance from the approximately one-fourth of U.S. agricultural exports that move under Government programs of the Food-for-Peace Program, principally exports under P.L. 480. These shipments had a value of \$1,758 million in 1964. Imputed dollar earnings (and Title IV dollar repayments) from these exports in that year amounted to \$327 million.

Foreign currencies generated under Title I, P.L. 480, are being used to pay such bills as embassy expenses, military outlays, and costs of market development operations carried on all over the world; an estimated \$208 million was used for these purposes in 1964.

The P.L. 480 barter program, which involves the exchange of U.S. farm products for various materials and services, also is helping by eliminating certain U.S. dollar expenditures abroad. In 1964, the United States saved \$113 million by bartering surplus food and fiber for such goods as post exchange supplies, petroleum, and jute bags, and for such services as modification of foreign-based U.S. aircraft and repairs of ships.

The long-term credit program under Title IV of P.L. 480 is beginning to give some balance-of-payments assistance now, and will provide more as time goes by.

^{2/} Based on balance-of-payments components of merchandise exports financed by Government grants and capital. Commercial sales for dollars, as compiled in the Trade Statistics and Analysis Branch, Development and Trade Analysis Division, ERS, equaled \$3,342 million in 1960 and \$4,577 million in 1964. The latter data are compiled mostly from reports of agencies which administer Government-financed programs; thus, they differ from the sources used for balance-of-payments purposes.

Table 1.--U.S. merchandise export earnings: Total, agricultural, and non-agricultural, calendar years 1960-64 1/

Item	: 1960	: 1961	: 1962	: 1963	: 1964	: 1960 through 1964
-- Million dollars --						
1. Merchandise exports, total	19,459	19,913	20,576	21,989	25,219	107,156
2. Estimated exports financed by U.S. Government	2,031	2,395	2,488	2,730	2,838	12,482
3. U.S. Government grants and capital	1,914	2,220	2,363	2,720	2,839	12,056
4. Farm product exports under barter contracts, Title III, P.L. 480 <u>2/</u>	117	175	125	12	5	434
5. Minus: Principal and interest dollar repayments on Title IV, P.L. 480 loans	---	---	---	2	6	8
6. Commercial exports, adjusted	17,428	17,518	18,088	19,259	22,381	94,674
7. Nonagricultural merchandise exports, total	14,627	14,889	15,542	16,405	18,872	80,335
8. Financed by U.S. Government grants and capital	682	957	1,100	1,337	1,407	5,483
9. Commercial exports	13,945	13,932	14,442	15,068	17,465	74,852
10. Agricultural merchandise exports, total	4,832	5,024	5,034	5,584	6,347	26,821
11. Estimated exports financed by U.S. Government	1,472	1,600	1,553	1,608	1,758	7,991
12. Title I, P.L. 480, sales for foreign currencies ..	980	902	1,013	1,148	1,235	5,278
13. Title II, P.L. 480, grants	93	186	149	163	121	712
14. Title III, P.L. 480, grants	125	151	179	160	165	780
15. Title III, P.L. 480, barter	117	182	137	74	118	628
16. Title IV, P.L. 480, dollar credit sales	---	---	40	52	96	188
17. Mutual Security (AID) programs, sales for foreign currencies	157	179	35	11	23	405
18. Commercial, unadjusted	3,360	3,424	3,481	3,976	4,589	18,830
19. Plus: Estimated amount of foreign currencies and bartered farm products utilized by U.S. agencies abroad in lieu of dollars; repayments in dollars on prior Title IV, P.L. 480 credits:	123	162	165	215	327	992
20. Title I, foreign currencies used by U.S. agencies	108	140	151	150	208	757
21. Title III, barter procurement for U.S. agencies	---	7	12	62	113	194
22. Title IV, dollar repayments	---	---	---	2	6	8
23. Mutual Security (AID), foreign currencies used by U.S. agencies	15	15	2	1	---	33
24. Commercial, adjusted	3,483	3,586	3,646	4,191	4,916	19,822
25. Estimated exports financed by U.S. Government, adjusted <u>3/</u>	1,349	1,438	1,388	1,393	1,431	6,999
26. U.S. Government grants and capital <u>4/</u>	1,232	1,263	1,263	1,381	1,426	6,565
27. Title III, P.L. 480, barter, adjusted <u>2/</u>	117	175	125	12	5	434

1/ Excludes transfers under military grants.

2/ Adjusted to exclude the share of farm products bartered for U.S. agencies procurement.

3/ Estimated total agricultural exports financed by U.S. Government in Line 11 minus the estimated utilization of foreign currencies, bartered agricultural products used in lieu of dollar expenditures abroad plus dollar repayments on Title IV credits in Line 19 having the effect of increasing commercial agricultural exports in Line 24.

4/ Estimated agricultural exports in Lines 12, 13, 14, 16, and 17 minus Lines 20, 22, and 23.

The program has accounted for almost \$200 million of agricultural exports sold for dollars, on credit terms up to 20 years. A total of \$6 million in interest and principal was received in 1964.

Commercial agricultural exports are gaining relatively faster than such earnings from nonagricultural exports. Commercial sales in 1964 of agricultural products (adjusted for imputed dollar earnings and repayments) were \$4,916 million, up 41 percent from 1960. At the same time earnings in 1964 from commercial nonagricultural exports equaled \$17,465 million, an increase of 25 percent over such earnings in 1960 (table 2).

Trade Balances

The balance-of-payments gap does not originate from merchandise trade but from such "invisibles" as cold war outlays, U.S. investment abroad, and tourist expenditures overseas. The contribution of merchandise trade, nonagricultural and agricultural, has been favorable for many years. Its contribution in 1964 amounted to \$6,597 million -- more than double the balance-of-payments deficit. Agriculture contributed over one-third of the total favorable balance of trade (table 3).

In addition to this "unadjusted" trade balance, the "adjusted" trade balance may also be derived. On the export side, this includes exports for dollars plus imputed dollar earnings from Government program exports. The "adjusted" trade balance reflects the contribution of merchandise trade to the solution of the balance-of-payments problem. The "adjusted" balance totals \$3,759 million (table 3).

Part of the foreign currencies acquired through the export of agricultural commodities is used to finance some of the U.S. Government military and economic assistance operations abroad. Hence, they are "equivalent" to dollars received. Similarly, a certain amount of U.S. dollars saved from barter is "equivalent" to dollars earned.

Largely subject to Congressional appropriation, authorization is made for the U.S. Government to finance overseas operations by using foreign currencies and, to some extent, barter transactions. In the absence of these authorizations, the deficit in the U.S. balance of payments would increase by an equivalent amount, assuming no reduction in U.S. expenditures and a consequent purchase for dollars of the needed foreign exchange.

The substitution of foreign currencies for dollars and bartered agricultural products in partially financing U.S. military and economic assistance programs and U.S. Government agency operations abroad results in no additions to the holdings of short-term dollar assets of foreign governments and monetary authorities. There is, therefore, no increase in dollar claims which may potentially be a threat to the U.S. gold stock.

Conclusion

Much attention needs to be given to the needs for full realization of the export potential of U.S. agriculture. These needs include, as recently pointed out by former Under Secretary of Agriculture Charles S. Murphy, increased

Table 2.--U.S. agricultural and nonagricultural dollar earnings from nonmilitary merchandise exports, calendar years 1960 and 1964

Dollar earnings	1960	1964
	-- <u>Million dollars</u> --	
Nonagricultural	13,945	17,465
Agricultural	3,483	4,916
	<u>Percent</u>	
Nonagricultural	100	125
Agricultural	100	141

availability of credit in some instances, stimulating increased buying power in developing countries, expanding market development programs, reducing foreign trade barriers, and exercising sound judgment in arranging for barter and the use of subsidies. The growth of U.S. agricultural exports as a result of fulfilling these needs could improve the U.S. balance-of-payments position by as much as several hundred million dollars a year.

Table 3.--U.S. balance of nonagricultural and agricultural trade,
unadjusted and adjusted, calendar year 1964

Item	Million dollars
<u>Unadjusted</u>	
Nonmilitary merchandise exports	25,219
Commercial merchandise imports.....	18,622
Unadjusted trade balance	6,597
Nonagricultural exports	18,872
Nonagricultural imports	14,540
Unadjusted trade balance: Nonagricultural	4,332
Agricultural exports	6,347
Agricultural imports	4,082
Unadjusted trade balance: Agricultural	2,265
Unadjusted trade balance: Nonagricultural and agricultural	6,597
<u>Adjusted</u>	
Nonagricultural exports	17,465
Nonagricultural imports	14,540
Adjusted trade balance: Nonagricultural	2,925
Agricultural exports	6,347
Less exports of agricultural products for which no dollars were earned	1,431
Subtotal	4,916
Agricultural imports	4,082
Adjusted trade balance: Agricultural	834
Adjusted trade balance: Nonagricultural and agricultural	3,759

