



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS

FitzGerald, Dennis Alfred.

Reserve

-o Cal
ADFO
Add

3 ECA AND THE AGRICULTURAL OUTLOOK ^x

Remarks by D. A. FitzGerald, Director, Food and Agriculture Division, Economic Cooperation Administration, at the 26th Annual Agricultural Outlook Conference, Washington, D. C., October 11, 1948.

This feels a little bit like "old home week" to me and I am very happy to be back here again. I take it that both Mr. Wells, in opening this meeting, and the Under Secretary, in making his remarks, had prepared papers to read. Unfortunately, for you at least, I do not have one. But I have done a little bit of thinking about what might be of interest and value to you.

We might start off by pointing out that ECA is primarily a banking agency. Its basic function is to finance essential imports into Western Europe--into the participating countries--in an amount which represents the difference between the earnings those countries now have and the total value of their necessary imports; in other words, to make up the current deficits in their balance of trade--making it up, of course, only to the extent that (a) it is necessary, and (b) the funds authorized by the Congress permit.

Perhaps all of us today are more and more interested--and we need to be more and more interested--in many international aspects of this country's economy, the world economy, and the implication that those international aspects have on agriculture and agricultural production. You all remember that before World War I, this country had an unfavorable balance of trade. The value of imports was larger than the value of exports. That situation changed after World War I and during the years between World War I and World War II, the United States began to have what is misleadingly called a favorable balance of trade. We exported more than we imported. During 1946-47, the total value of United States exports amounted to \$12,750,000,000; our imports were valued at \$5,400,000,000. An allegedly favorable balance of trade amounted to \$7,350,000,000. In 1947-48, exports were even larger--nearly 14 billion dollars. Imports were also slightly larger--about 6.3 billion dollars--but we still had what is misleadingly called a favorable balance of trade and which amounted to 7,750,000,000 dollars.

During 1946-47 and 1947-48 those balances--the excess in the value of exports over imports--were financed in a variety of ways. They were financed by the further drawing down of any credits that the importing countries had in the United States, by the liquidation of capital assets of importing countries, by shipments of gold to the United States, and by various and sundry types of loans and grants that the United States made--including, for example, the British loan, UNRRA, Interim Aid.

By the summer of 1947, it became apparent that this unfavorable balance of trade, which had resulted from the inability of European countries to expand their exports to pay for their imports, was not likely to be corrected in the near future. The previous ad hoc arrangements--UNRRA, Interim Aid, and all the rest--had not met the problem. It was because of the continuing inability, as a result of the economic, political, and social effects of World War II, of Western Europe to produce and export enough to pay for its necessary imports, that Secretary Marshall made the comments he did at Harvard in June 1947. All of you know the developments since Mr. Marshall's speech.

Under the leadership of the United Kingdom and France, invitations were sent to all European countries to meet in Paris to develop a recovery program to submit for the consideration of the people and of the Congress of the United States. The invitation was accepted by 16 western European countries. During the late summer and fall of 1947, these countries and the Occupation Authorities developed a proposal for American assistance toward European recovery. It was submitted to the Executive Branch of the United States Government in the fall of 1947. There it went through the most comprehensive examination, and was finally submitted to the Congress in the shape of a legislative request.

Simultaneously with the preparation of the recovery program by the participating countries, the President of the United States established three committees to examine the ability of this country to support and finance a European recovery program without undue detriment to its own economy. The committees' reports, which most of you either read or knew about, were generally in agreement on the following major considerations: (1) that the United States could finance a reasonably appropriate European recovery program, without serious danger to its own economy (2) that it was an economic necessity that such a program be financed because, with Western Europe flat on its back, continued economic progress in the United States would not be possible, and (3) that with a Western Europe flat on its back the opportunities for communism--for the extension of what amounts to dictatorship--would materialize to such an extent that this country might in self defense have to become an armed camp. The Congress, on April 3, 1948, passed the basic European recovery legislation and later the next month, made the first appropriation--about 5 billion dollars--to finance the first year's effort.

I want now to refer to the statements I made earlier that the balance-of-trade deficits of the United States in 1946-47 and 1947-48 were in the neighborhood of 7 to 8 billion dollars. In contrast, the first annual Congressional appropriation for European recovery is about 5 billion dollars. Consequently, unless the participating countries are able to increase their shipments to the United States or in other ways, such as through tourism or shipping services, to earn additional dollars, the probable foreign demand for American exports in 1948-49 will, in fact, be less than in 1946-47 or 1947-48. I wonder if that point is clear. What I am saying is that in 1948-49 about the only way the participating countries can finance imports over and above their current dollar earnings is by the funds appropriated by Congress for European recovery, and those funds amount to only about 5 billion dollars in contrast to the 7 to 8 billion dollars worth of purchases they made in 1946-47 and 1947-48 in excess of current earnings.

I am saying that primarily because I think there has been in the past an assumption that the appropriation made for the European Recovery Program represents an additional demand over and above the demands of the last 2 years and I hope you will see that this is not the case. The European Recovery Program, in fact, is contributing a demand somewhat less than the demand that was financed in the previous 2 years through the devices already mentioned.

You here today are interested even more in the prospects of foreign demand in 1949-50; that is, the prospective demand for 1949 crop and livestock production. On the one hand, that will depend, of course, on the appropriation which the Congress may make for European recovery. And it will depend, on the other hand, on the ability, particularly of Western Europe, to earn more dollars. I put it that way because by and large the limiting factor in foreign demand now is dollars. There are very few countries in the world today that do not, in one way or another, have to limit the dollars that their nationals or their governments may spend. Even our neighbor to the North has had for the last 9 months to limit the number of

American dollars that Canadians are given to spend in the United States. All European countries have very strict exchange controls. Many Latin American and Far Eastern countries have extremely rigid exchange controls insofar as dollars are concerned. In general, I think it is wholly correct to say that in 1949-50, the demand--the effective demand on the United States--will be limited by the amount of dollars these countries have available.

The application of these generalities to individual agricultural commodities is not universal, but it is much more general than perhaps we commonly realize. Limited buying of many of our so-called surplus agricultural commodities--not all but many of them--is primarily a result, not of the lack of demand in the sense of nutritional requirements or the willingness of the people abroad to pay their local currencies for these commodities, but the inability to find enough dollar exchange. I could mention several rather important commodities of which we have in this country a surplus and for which the problem is primarily one of exchange--tobacco is one; dried fruits, fresh fruits, and deciduous fruits are others. Before the last War, all of these relied quite heavily upon exports. These commodities are wanted by western Europeans but the dollar exchange to buy them does not exist.

For a number of other American agricultural products, dollar exchange is being made available in amounts substantially adequate to take up a major portion of the exportable supplies of the United States. At the head of that list are bread grains--primarily wheat. Ever since the war, most European countries have had a bread ration. Most of them still do. They place an increase in the bread ration, or an elimination of the bread ration, very near the top of priority for dollars. In 1947-48, the United States exported some 475 million bushels of wheat. The demand, including the availability of dollars, is for approximately as large a volume of wheat exports from the United States this year. Indeed, with two qualifications which I will mention in a moment, I personally believe that the demand for wheat exports will exist in 1949-50 of almost comparable magnitude. I have here a first draft copy of a report from OEEC in Paris, which as you know is the Organization for European Economic Cooperation--a cooperative Council of the participating European countries. That report indicates that for the participating countries as a group, bread-grain production this year amounted to about 30 million metric tons, as compared with 21 million last year and nearly 35 million tons prewar. In spite of all the reports of good crops in Europe this year, bread-grain production in Western Europe is about 5 million tons, or 185 million bushels less than prewar. At the same time, one must remember that there are in Western Europe today about 25 million more people than in 1935-39. And remember, furthermore, that before the war Western Europe imported about one-third of all the food it consumed. In 1947-48 the participating countries of Europe imported about 17.4 million metric tons of bread grains. Prewar, they imported 13.3 million metric tons. They would like to import this crop-year 15.6 million metric tons. Note that this year's indigenous production of 30 million metric tons, plus their proposed imports of 15.6 million gives a bread-grain supply of 45.6 million tons, whereas prior to the war the supply of bread grains was about 49 million metric tons.

This year's European crop production resulted from the planting of an acreage about 10 percent below prewar and of yields up to the prewar level. Excluding Spain, the prewar average wheat yield in Europe was 24.6 bushels per acre. This year it was 24.5. The prewar average rye yield was 27.1. This year it was 27.0. Due to exceptionally favorable weather in Western Europe, this year's yields of bread grains were about normal. Whether one can expect equally good weather conditions next year is, of course, in the lap of the gods. But, in my opinion, it will take better than average weather conditions in Europe next year to obtain prewar yields. That is because Western European agriculture is still short of ferti-

lizer and other production supplies. The best guess that can be made today is that Western European production of bread grains in 1949 will still be somewhat less than prewar. In this event it seems likely that imports at no less than the 1948-49 level will be required.

In looking at these outlets for American wheat, we have to ask ourselves, however--at least ask the question even if we can't answer it--what sort of exports can be expected from the USSR. Last year, exports from the USSR to Western Europe amounted to 750,000 tons. Our impression is that Russian crops this year are better than last year, so exports could be larger but whether they will be I don't know. If I had to guess, I would say that they might be slightly larger. We know of some offers that have been made by the USSR. Whether the conditions under which those offers have been made will permit acceptance we still don't know.

The other qualification is what will be the production in other parts of the world--Canada, Australia, and Argentina. In the case of Argentina, the trend has been for a decreasing production of wheat. I see no reason for believing that there will be a material change. Australia's crop was of record size last year. The harvest which will begin in December is likely to be somewhat smaller. Canada's crop just harvested was larger than the previous year but not up to the 10-year average. All in all, prospects appear to me to be good for at least another year of relatively high demand for American wheat.

The second priority requirement of Western Europe is for feed-grains. European production of livestock products is well below prewar, probably only 70 to 75 percent of prewar. Western Europe is desperately anxious to get feed grains and protein feeds in order to make satisfactory progress in rehabilitating its livestock enterprise. In my opinion, exports of coarse-grain feeds from the United States during the current year and next year will be much larger than either the prewar average or the average of 1947-48. Of course, exports in 1947-48, as you all know, were affected by the short corn crop of 1947.

I think the basic commodity in shortest world supply today is fats and oils. European production of fats and oils before the war was nearly 3 million metric tons. This year it will be about 2.1 million metric tons. Western Europe imported before the war nearly 4 million metric tons of fats and oils. This year they hope to import 2.5 million metric tons. Their prewar supply was nearly 7 million tons. This year's supply will be only about 5 million tons.

There is no reason to believe that there will be any exceptional expansion in the domestic production of fats and oils in Europe next year and there is every reason to believe that European import requirements will be as large in 1949-50 as in 1948-49. That suggests the importance of placing at the top of the list the maintenance of a large acreage of oilseed, particularly edible oilseed crops in the United States. I think it is very important, very necessary, that every encouragement be given to maintaining at least the current acreage of soybeans. Cotton oil is more or less a byproduct of cotton production. If there is a decline in cotton acreage and production next year, it would indeed be desirable to offset the decrease in production of cotton oil by an increase in other oil-bearing commodities. It is currently estimated that this year's American production of all fats and oils will be slightly over 10 billion pounds. We will need at least another 10 billion pounds next year.

From the point of view of Western Europe, the higher cost foods take a somewhat lower priority. I am thinking primarily of meat and dairy products. There

will be little, if any, demand for meat exports from the United States into Western Europe next year. It costs too much. They don't have the dollars. There will be, if supply conditions in the United States permit, some requirements for dairy products, particularly dry skim milk and evaporated milk and cheese. At present, as I know some of you realize, there is not enough dry skim milk produced to meet export requirements. As a consequence, ECA is not financing any exports of dry skim milk. The supply is being reserved first for the Children's Fund and the balance above domestic requirements for the Army for occupied areas. I believe there will be, assuming continuation of the Children's Fund, a continuing high demand for dry skim milk through all of next year.

Beans and peas are other commodities for which the priority demand is lower than on bread grains, feed grains, and fats and oils. It is a little early for me to have an opinion as to the demand for dried beans and peas, but it appears likely that such demand may be somewhat less than this year's production. It might be that for these crops farmers should consider going a little slow on production.

A commodity on which perhaps there has been most newspaper headlines in the last few days is tobacco. This year's total tobacco exports from the United States may be no more than two-thirds of those of last year and perhaps somewhat below pre-war. I think for the current year that is no national calamity. What is worrying tobacco growers and what they are entitled to be worried about, is whether the trend in requirements for American tobacco will continue downward; and whether Western Europe, because of a continuing shortage of dollars, will attempt to divert its tobacco demands into new production or into types grown in other parts of the world. It is difficult to answer that question. If European recovery is successful, I think it must be assumed that the requirements for American tobacco will gradually increase, but such an increase, in the long run, can only be maintained to the extent that Western Europe is able to increase its economic activity, its economic productivity, and its exports--exports that will earn dollars.

The final commodity that I want to just mention briefly is cotton. Exports of cotton last year were the lowest in some time. If I remember correctly, they amounted to 2.5 million bales. Western Europe generally is fairly short of cotton. It is requesting a substantial volume of ECA financing for cotton. As a result, I expect cotton exports to be somewhat larger than last year--for one reason because production and stocks in other parts of the world are lower than a year ago. It must be remembered, however, that Western Europe will try to buy cotton from nondollar areas to the maximum extent possible.

I have talked, as you have noticed, primarily about the European demand, with particular reference to Western Europe, because after all it is obvious that, although the dollars ECA is putting into European hands is less than the dollars it had in previous years, it is a very important segment of the whole foreign demand picture. I have not touched upon domestic demand and domestic prospects because you have others here who can comment on them more intelligently. But I should like to leave one parting thought. Important as is foreign demand, the big market is right here in the United States.

U S DEPT OF AGRICULTURE LIBRARY
DOCUMENTS
BAE-W-D WASHINGTON D C 25