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**U.S.
AGRICULTURE
AND THE
BALANCE OF
PAYMENTS,
1960-67**

CONTENTS

	Page
SUMMARY.....	3
INTRODUCTION.....	4
AGRICULTURE'S CONTRIBUTION.....	4
U.S. BALANCE OF PAYMENTS.....	11
CONCEPTS AND METHODOLOGY.....	13

FIGURES

Figure No.

1	Total Balance of Trade--All Products, Agricultural and Nonagricultural.....	6
2	Commercial Balance of Trade--All Products, Agricultural and Nonagricultural.....	7
3	Agriculture's Gross Contribution to the Balance of Payments.....	11
4	Agriculture's Net Contribution to the Balance of Payments.....	12
5	Balance of Payments (Deficit-)--As Recorded and Excluding Agriculture's Net Contribution.....	12

TABLES

Table No.

1	U.S. Merchandise Trade, Balance of Payments Basis.....	5
2	Noncommercial U.S. Agricultural Exports.....	8
3	Agriculture's Contribution to the U.S. Balance of Payments.....	10

SUMMARY

Agriculture's net annual contribution to the U.S. balance of payments averaged \$1 billion for the past 4 years, compared with a minus \$274 million in 1960. Because of agriculture's positive contribution in recent years, the U.S. balance of payments deficit was lower than it would have been and the actual or potential drain on U.S. gold stocks was lessened.

Total agricultural exports on a balance of payments basis accounted for \$6.4 billion (21 percent) of total exports worth \$30.5 billion in 1967. If exports financed by the U.S. Government with international grants and credits, the noncommercial exports, are excluded, then the value of commercial agricultural exports amounted to \$5.1 billion last year. Total commercial U.S. exports were \$27.0 billion. This compares with \$3.5 billion worth of commercial exports out of a total of \$17.4 billion in 1960.

After deducting agricultural imports of \$4.5 billion, the balance resulting from commercial agricultural trade was \$660 million in 1967. But, the total commercial trade balance was only \$19 million, which means that the commercial trade balance for nonagricultural products was a deficit of \$641 million in 1967.

This reversed the positions that agricultural and nonagricultural trade occupied in 1960, when the commercial agricultural trade balance was negative (by just over \$400 million) and the commercial nonagricultural balance was positive (by \$3.1 billion).

Balance of payments benefits from noncommercial agricultural exports aggregated \$1.6 billion between 1960 and 1967, and amounted to over \$300 million last year. If these returns are added to commercial agricultural exports, the gross contribution to the balance of payments by agriculture was \$5.4 billion in 1967. After deducting agricultural imports, the net contribution was just under \$1.0 billion. In other words agriculture's net contribution reduced the U.S. balance of payments deficit for 1967 by almost \$1 billion.

U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS, 1960-67

By George R. Kruer, Assistant Chief
International Monetary and Trade Research Branch
Foreign Development and Trade Division

INTRODUCTION

The U.S. balance of payments deficit is currently a subject of deep concern to both the United States and the rest of the world, especially following the sharp rise in the deficit during the fourth quarter of last year and the gold crisis in the first quarter of this year. Dollars earned abroad from agricultural trade have been a significant factor in holding the deficit down in recent years.

This report covers the period 1960-67. The year 1960 is the first in which data on international transactions by the U.S. Government, necessary to derive noncommercial exports, are available from the Balance of Payments Division (BPD), Office of Business Economics, Department of Commerce.

AGRICULTURE'S CONTRIBUTION

Total Trade.--The value of U.S. agricultural exports rose from \$4.8 billion in 1960 to \$6.4 billion in 1967--an increase of 32.1 percent (table 1). ^{1/} Half of the increase (\$800 million) occurred between 1963 and 1964. Exports reached a peak of \$6.9 billion in 1966 and then fell to \$6.4 billion in 1967. Agricultural imports increased at a much slower pace between 1960 and 1967, rising by 14.4 percent from \$3.9 billion in 1960 to \$4.5 billion in 1967. Since exports rose faster than imports, the trade balance increased by a substantial amount--more than doubling from \$941 million in 1960 to \$1,933 million in 1967.

The value of major agricultural products exported by the United States last year were wheat and wheat flour, \$1,206 million; feed grains (excluding products), \$1,054 million; soybeans, \$772 million; tobacco (unmanufactured), \$499 million; and cotton (excluding linters), \$464 million.

Exports of nonagricultural products increased at a faster rate from 1960 to 1967 (64.3 percent) than agricultural exports, but imports of nonagricultural products increased even faster (107.8 percent), with the result that the nonagricultural trade balance declined from \$3.8 billion in 1960 to \$1.6 billion in 1967. However, this was not a steady downward trend, since a peak balance of \$4.4 billion had been achieved in 1964.

^{1/} Throughout this report, data for the most recent 2 years (1966-67) are preliminary and subject to revision.

Table 1.--U.S. merchandise trade, balance of payments basis, 1960-67

Period and commodity	Exports (f.o.b.)			Imports (f.o.b.)	Trade balance	
	Total	Noncommercial ^{1/}	Commercial		Total	Commercial
-----Million U.S. dollars-----						
Total:						
1960.....	19,489	2,046	17,443	14,732	4,757	2,711
1961.....	19,954	2,400	17,554	14,510	5,444	3,044
1962.....	20,604	2,506	18,098	16,187	4,417	1,911
1963.....	22,071	2,888	19,183	16,992	5,079	2,191
1964.....	25,297	3,020	22,277	18,621	6,676	3,656
1965.....	26,244	2,941	23,303	21,472	4,772	1,831
1966.....	29,168	3,146	26,022	25,510	3,658	512
1967.....	30,463	3,464	26,999	26,980	3,483	19
Agricultural:						
1960.....	4,835	1,376	3,459	3,894	941	-435
1961.....	5,023	1,454	3,569	3,756	1,267	-187
1962.....	5,037	1,423	3,614	3,898	1,139	-284
1963.....	5,584	1,538	4,046	4,044	1,540	2
1964.....	6,350	1,630	4,720	4,090	2,260	630
1965.....	6,229	1,348	4,881	4,087	2,142	794
1966.....	6,869	1,394	5,475	4,491	2,378	984
1967.....	6,388	1,273	5,115	4,455	1,933	660
Nonagricultural:						
1960.....	14,654	670	13,984	10,838	3,816	3,146
1961.....	14,931	946	13,985	10,754	4,177	3,231
1962.....	15,567	1,083	14,484	12,289	3,278	2,195
1963.....	16,487	1,350	15,137	12,948	3,539	2,189
1964.....	18,947	1,390	17,557	14,531	4,416	3,026
1965.....	20,015	1,593	18,422	17,385	2,630	1,037
1966.....	22,299	1,752	20,547	21,019	1,280	-472
1967.....	24,075	2,191	21,884	22,525	1,550	-641

^{1/} Total noncommercial exports are equal to the amount of U.S. merchandise financed by the U.S. Government with international grants and credits and which involve no direct dollar outflow from the United States. Noncommercial agricultural exports are from table 2 and noncommercial nonagricultural exports are the residual.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Although the agricultural trade balance accounted for only 19.8 percent of the total favorable trade balance of \$4.8 billion in 1960, by 1967 it accounted for 55.5 percent of total favorable balance of \$3.5 billion. As shown in figure 1 the agricultural trade surplus began to exceed the nonagricultural trade surplus in 1966.

Commercial and Noncommercial Trade.--However, the export totals and the trade balances do not adequately measure trade's contribution to the balance of payments because of noncommercial exports. Total noncommercial exports rose from \$2.0 billion in 1960 to \$3.5 billion in 1967. All of the increase was accounted for by nonagricultural exports since noncommercial agricultural trade decreased by \$103 million to \$1,273 million over the 8-year period. The largest annual amount of agricultural exports financed by the Government was \$1,630 million in 1964. With the sizable growth in total agricultural exports and the leveling off of noncommercial exports, it is evident that commercial exports accounted for all of the increase. In fact, commercial agricultural exports rose in each year since 1960 except 1967.

Noncommercial nonagricultural exports more than tripled over the 8-year period from \$670 million in 1960 to \$2,191 million in 1967. Commercial non-agricultural exports also increased in each year between 1960 and 1967.

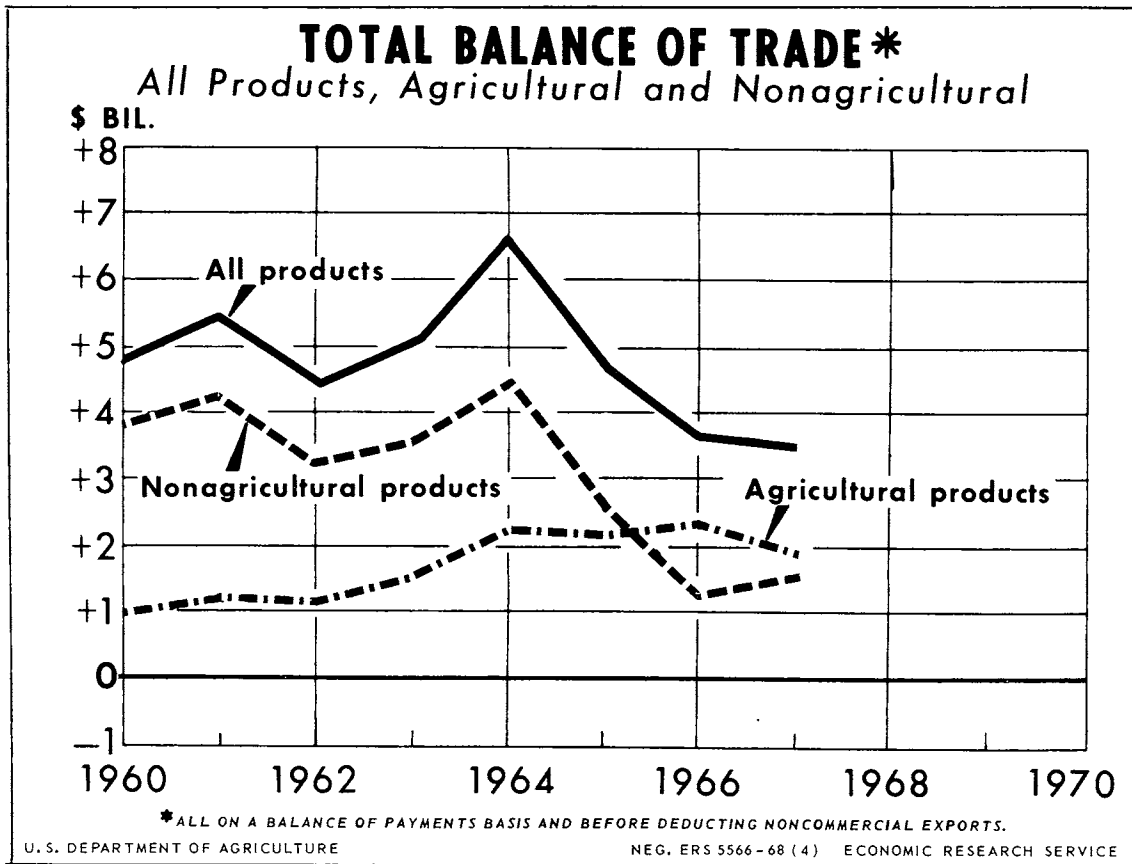


Figure 1

Deducting imports from commercial exports yields a much better measure of the role of merchandise trade in the balance of payments. (All imports are commercial.) The overall commercial trade balance declined from \$2,711 million in 1960 to \$19 million in 1967 after having reached a peak of \$3,656 million in 1964. The best trade year the United States has had so far in this decade was 1964.

As figure 2 shows, the commercial agricultural trade balance exhibited a strong upward trend so far during the 1960's. It started in 1960 with a deficit of \$435 million and in 1967 it showed a surplus of \$660 million.

At the same time, the commercial nonagricultural trade balance, which started off the decade with a \$3,146 million surplus, ended up as a deficit of \$641 million in 1967. Thus, even though the increasing commercial agricultural trade balance offset part of the decline which occurred in the nonagricultural trade balance, it could not overcome all of it and the total commercial trade surplus declined from \$2,711 million in 1960 to \$19 million in 1967.

The declines in the trade balances--total and commercial--are sources of concern since the United States has traditionally depended on large surpluses to offset at least part of the deficits incurred in other areas of the balance of payments such as capital outflows and tourism.

Noncommercial Agricultural Exports.--Sales for local currencies under the P.L. 480 program are still by far the largest noncommercial agricultural export, accounting for 57.5 percent (\$732 million) of these exports in 1967 (table 2).

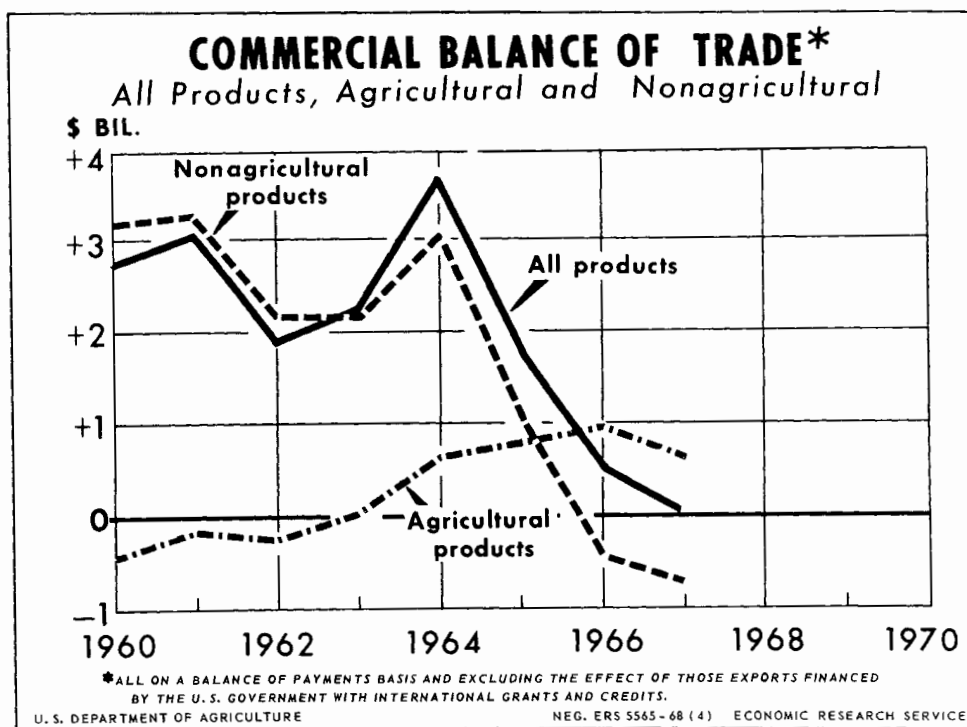


Figure 2

Table 2.--Noncommercial U.S. agricultural exports, 1960-67 1/

Item	1960	1961	1962	1963	1964	1965	1966	1967
-----Million U.S. dollars-----								
Total noncommercial agricultural exports.....	1,376	1,454	1,423	1,538	1,630	1,348	1,394	1,273
By program:								
Title I, P.L. 480 sales for local currencies.....	979	902	1,012	1,149	1,234	914	840	732
Title I P.L. 480, long-term dollar credit sales <u>2/</u>	---	---	39	50	97	145	234	185
Title II, P.L. 480 grants <u>2/</u>	218	339	328	328	276	263	230	257
Mutual Security (AID) disposals.....	157	179	35	11	23	26	47	33
Export-Import Bank, financed from own resources.....	22	34	9	---	---	---	43	66

---Zero or less than \$500,000.

1/ Those financed by the U.S. Government with international grants and credits.

2/ The Food for Peace Act of 1966, effective January 1, 1967, shifted dollar credit sales from Title IV of the old act to Title I and combined under Title II the grants previously made under Titles II and III. The new designations are shown here.

Source: P.L. 480 Program (all titles): Office of Business Economics, U.S. Department of Commerce; Mutual Security and Export-Import Bank programs: Based on data from AID and the Export-Import Bank.

This was the lowest amount financed in this manner in the 1960's, and is substantially below the \$1,234 million sold in 1964. This decline is expected to accelerate as the transition to dollar credit sales and convertible local currency credit sales takes place as directed by Congress in the most recent extension of the P.L. 480 program. Shipments under the dollar credit sales programs of P.L. 480 (formerly Title IV but now under Title I) did not begin until 1962 when \$39 million went out compared with \$185 million in 1967. Shipments financed in this manner should rise rapidly as the transition away from local currency sales continues.

Grants under Title II (and Title III of the old law) of the P.L. 480 program have been irregularly declining from a high of \$339 million in 1961. In 1967 grants amounted to \$257 million, or 20.2 percent of noncommercial agricultural exports.

Shipments under the various foreign assistance acts in recent years have been well below the high of \$179 million in 1961. The \$33 million exported under this program in 1967 amounted to less than 3 percent of noncommercial agricultural exports.

There were almost no agricultural exports financed by the Export-Import Bank in 1963-65. Activity resumed in 1966, and during 1967 the Bank financed the export of \$66 million worth of cotton to Japan.

Returns on Noncommercial Agricultural Exports.--It was stated earlier that while noncommercial exports do not provide any immediate balance of payments benefits, there usually are some future benefits. These benefits come about when P.L. 480 dollar credits and Export-Import Bank credits are repaid, including interest, and when local currencies acquired under P.L. 480 and Foreign Assistance programs are used by U.S. agencies to meet expenditures abroad which would normally have been paid in dollars.

Balance of payments benefits from noncommercial agricultural exports stayed within a range of \$160 million to \$215 million between 1960 and 1966, but increased to \$328 million in 1967 (fig. 3 and table 3). Throughout this period, most of these benefits came through the use by U.S. agencies of local currencies acquired from P.L. 480 sales. Such uses amounted to \$112 million in 1960 and \$130 million in 1966, but increased sharply to \$222 million in 1967. At the same time, repayments of P.L. 480 dollar credits steadily rose from \$2 million in 1963--the first year in which repayments were made--to \$59 million in 1967. These repayments will continue to rise because of the transition from sales for local currencies to dollar credit sales and to convertible local currency credit sales.

Agriculture's Gross and Net Contribution.--Adding the returns on noncommercial exports to commercial exports yields the gross contribution of agriculture to the balance of payments for any given year. The gross contribution amounted to \$3.6 billion in 1960 and gradually increased each year to \$5.6 billion in 1966, but fell back to \$5.4 billion in 1967. The 1967 gross contribution represents a 50.4 percent increase from that of 1960.

Since commercial agricultural exports and the returns on noncommercial exports both increased faster than agricultural imports, agriculture's net contribution to the balance of payments, that is, gross returns less the value

Table 3.--Agriculture's contribution to the U.S. balance of payments, 1960-67

Item	1960	1961	1962	1963	1964	1965	1966	1967
-----Million U.S. dollars-----								
Commercial agricultural exports	3,459	3,569	3,614	4,046	4,720	4,881	5,475	5,115
Plus: Realized dollar returns & savings on noncommercial agricultural exports	161	187	180	163	214	199	169	328
Title I, P.L. 480, foreign currencies used by U.S. agencies	112	141	148	152	209	170	130	222
Title I, P.L. 480 principal & interest repayments on dollar credit sales <u>1/</u>	---	---	---	2	5	27	39	59
Mutual Security (AID) foreign currencies used by U.S. agencies	16	15	3	1	---	2	---	---
Export-Import Bank principal & interest dollar repayments	33	31	29	8	---	---	---	47
Total agricultural dollar earnings: actual plus realized dollar returns on noncommercial exports	3,620	3,756	3,794	4,209	4,934	5,080	5,644	5,443
Less: Agricultural imports	3,894	3,756	3,898	4,044	4,090	4,087	4,491	4,455
Net contribution to the balance of payments attributable to agricultural merchandise trade	-274	---	-104	165	844	993	1,153	988
U.S. balance of payments (deficit-) <u>2/</u>	-3,901	-2,370	-2,203	-2,671	-2,800	-1,335	-1,357	-3,575

---Zero or less than \$500,000. 1/ Formerly under Title IV, see footnote 2/ of table 2. 2/ Liquidity basis.

Source: Based on data from the Commodity Credit Corporation, Export-Import Bank, and the Office of Business Economics, U.S. Department of Commerce.

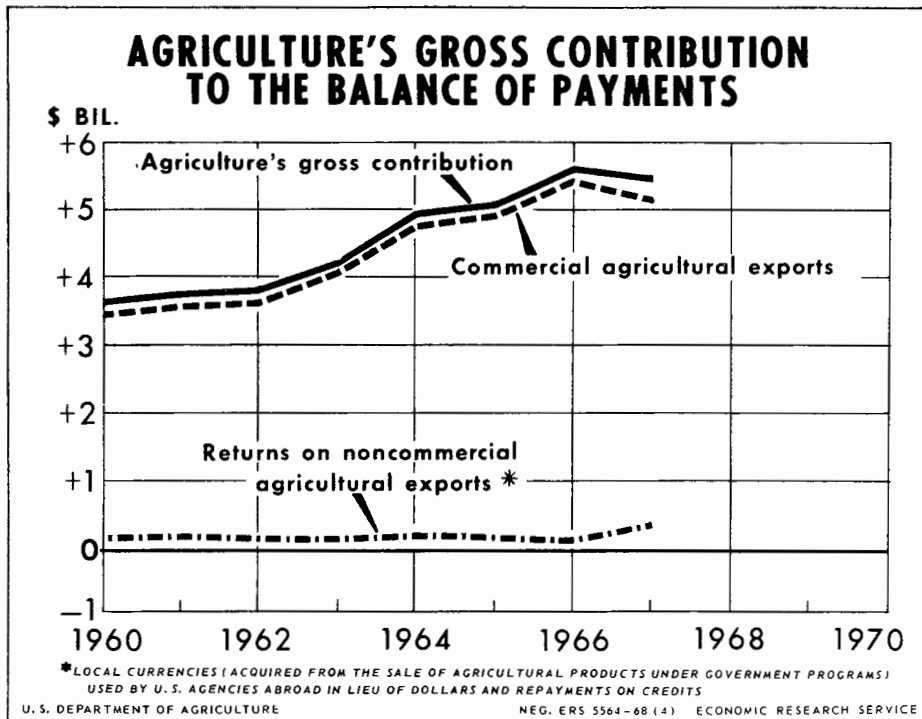


Figure 3

of agricultural imports, rose rapidly between 1960 and 1967 (fig. 4). The net contribution increased from minus \$274 million in 1960 to a peak \$1,153 million in 1966 and then slipped back to \$988 million in 1967. The net contribution averaged close to \$1 billion a year over the past 4 years.

U.S. BALANCE OF PAYMENTS

Total.--The U.S. balance of payments deficit (liquidity basis) increased from \$1,357 million in 1966 to \$3,575 million in 1967. Over half of the deficit--\$1,903 million--occurred in the fourth quarter. This was a substantial increase from the \$466 million deficit that was recorded in the fourth quarter of 1966. The outflow of gold amounted to \$1,012 million in the fourth quarter of 1967, compared with only \$92 million in the third quarter and \$121 million in the fourth quarter of 1966.

The large increase in the deficit during the fourth quarter of 1967 was due in part to special circumstances arising as a consequence of the devaluation of the pound sterling on November 18. As part of the devaluation program, the United Kingdom liquidated approximately \$500 million worth of U.S. securities from its investment portfolio to get dollars to back up the pound. This had an adverse effect on the U.S. balance of payments.

Another factor, not connected with the United Kingdom's devaluation, was a sizable decline in our merchandise trade surplus stemming from a large increase in imports combined with a small decline in exports. On a seasonally

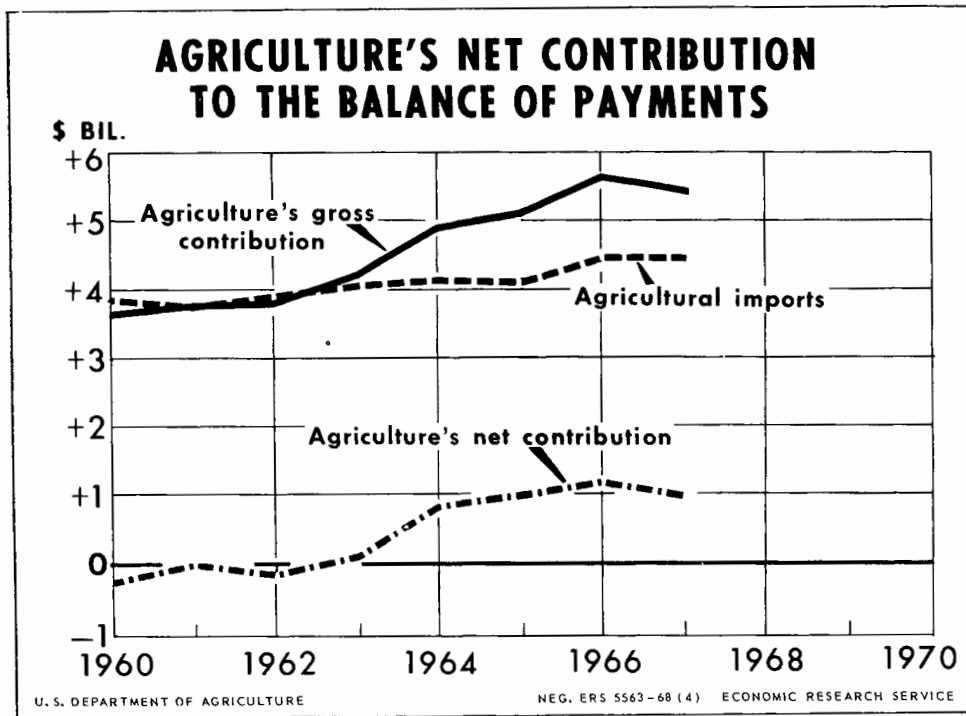


Figure 4

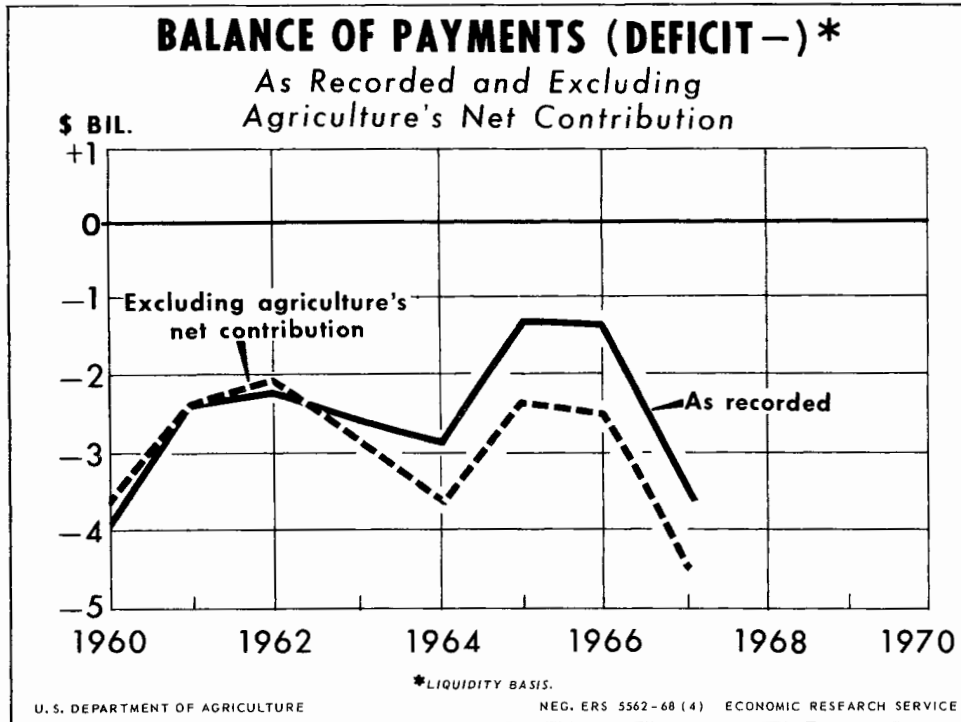


Figure 5

adjusted basis, the trade surplus declined from \$1,077 million in the third quarter to \$243 million in the fourth quarter. The major products accounting for the surge in imports during the fourth quarter were petroleum, steel, copper, and other metals, and a larger than usual increase in foodstuffs.

The remainder of the fourth quarter increase was spread throughout the balance of payments accounts.

Effect of Agriculture's Contribution.--Because of agriculture's positive net contribution from 1963 to 1967, the U.S. balance of payments deficit was smaller than it otherwise would have been. In 1960 and 1962, agriculture's net contribution was negative while in 1961 it was zero (fig. 5). Agriculture's net contribution, in 1967, reduced the U.S. balance of payments deficit from \$4,563 million to \$3,575 million.

CONCEPTS AND METHODOLOGY

Any attempt to measure the contribution of U.S. agriculture to the balance of payments involves adjusting the raw export and import trade data to a balance of payments basis and also excluding noncommercial exports from the trade data. However, noncommercial exports ultimately provide balance of payments benefits and these have to be taken into account.

Adjusting Trade Statistics to a Balance of Payments Basis.--Data for U.S. agricultural merchandise trade are reported by the Economic Research Service based on trade data compiled and published by the Bureau of the Census.

The raw data on U.S. trade are adjusted for a variety of conceptual, definitional, and statistical reasons by the Balance of Payments Division (BPD), Office of Business Economics, Department of Commerce, before they enter the merchandise trade account of the balance of payments. The individual adjustments may be sizable, but at the same time many of them are offsetting, so that the overall final adjustments are not substantial in relation to total trade. The BPD publishes a table that reconciles the Census trade data with theirs. For 1966, the table showed that the value of exports (excluding military grant shipments) amounted to \$29,168 million compared with Census figures of \$29,396 million.

Some of the BPD adjustments to the Census figures affect agricultural products. Although the adjustments are not sizable, and currently only one adjustment is made, to be consistent it was desirable to adjust the agricultural trade data to a balance of payments basis for this analysis.

The one adjustment currently being made by the BPD involves U.S. grain that is sent to Canada for storage only and for which there is no sale or expectation of payment for the grain involved in the movement. The Census includes this in its export figures and in its import figures if it is returned to the United States. The BPD excludes both of these items from its respective export and import series, but adds to its export series the value of any grain sold to foreigners out of storage in Canada. This means that the export is counted only when there is a bona fide sale or gift of the grain to

foreigners and not just a movement for the convenience of storage. The gross adjustment to exports ranges from \$15 million to \$30 million a year, while imports are adjusted by less than \$2 million a year.

In the early 1960's, two other adjustments were made by BPD to agricultural imports. One involved reducing Census import figures for the amount by which sugar imports were estimated to have been overvalued when recorded in the Census data. The last year in which this adjustment was necessary was 1962 and the amount involved was less than \$25 million. The other adjustment increased the Census import data by the estimated amount that banana imports were undervalued. The peak amount of the adjustment in this decade occurred in 1960; it was approximately \$80 million. No adjustments for bananas have been necessary since 1964.

With total exports and imports and agricultural exports and imports on a balance of payments basis, nonagricultural trade can be derived as a residual.

Reexports.--Total exports include foreign and domestic merchandise and total imports include nonconsumption imports. But since the purpose of this analysis is to ascertain the contribution of domestic agriculture to the U.S. balance of payments, imports of farm products not for consumption and which are reexported are excluded from both agricultural exports and imports. This means that transshipped agricultural products are included in nonagricultural trade and any balance of payments effect of such trade is attributable to the nonagricultural trade sector rather than domestic agriculture. This handling of transshipped agricultural products is similar to that of the Trade Statistics and Analysis Branch, Economic Research Service.

Deriving Commercial and Noncommercial Exports.--The next step in determining agriculture's contribution to the balance of payments is classifying exports as either commercial or noncommercial. Exports considered to be noncommercial need to be excluded from exports and the trade balance since there is either no immediate balance of payments benefit derived from them or, for some, there will never be any monetary benefit. This is because the export receipt is immediately offset by a credit or a grant. This is reflected in the balance of payments by an entry in the capital or the unilateral transfers account. But what is classified as noncommercial varies since there are no set or generally accepted definitions of it. Whatever standard is used should apply equally to trade in agricultural and nonagricultural products so that a comparable total can be derived and comparisons can be made between them. Most users of trade data would probably agree that the one essential requirement for a noncommercial export is that it be under a Government program. Based on the preceding criteria, in this report an export is considered noncommercial if it is financed by the U.S. Government with an international grant or credit. Therefore, not all exports under Government programs are noncommercial since some occur without the assistance of international grants or credits by the U.S. Government.

Programs financed by the U.S. Government with international grants and credits are listed by the BPD in table 5 (Major U.S. Government Transactions) of their quarterly reports on the U.S. balance of payments in the Survey of Current Business. A total for merchandise exports financed in this manner is

available from the BPD beginning with 1960. Agricultural export figures under some of these programs were available from the BPD; others were derived by calculating agricultural exports in the same manner that the BPD calculates total shipments under the programs. By deducting noncommercial agricultural exports from total noncommercial exports, noncommercial nonagricultural exports were derived.

The major agricultural program so financed by the U.S. Government is P.L. 480. However, not all exports under P.L. 480 are classified as noncommercial. Barter is not, but grants, local currency sales, and long-term dollar credit sales are. Barter exports are considered commercial since they do not involve an international grant or credit by the U.S. Government. Furthermore, something of equal or greater value (from the U.S. viewpoint) is immediately received in return. Sales for inconvertible foreign currencies may be considered an extension of credit until such time as they are used by the U.S. Government.

Agricultural products are also exported under the Foreign Assistance Acts administered by the Agency for International Development (AID) and on credit extended by the Export-Import Bank using its own funds. Exports guaranteed by the Export-Import Bank are classified as commercial but those financed by the Export-Import Bank with its own resources are noncommercial. The AID and Export-Import Bank programs account for most of the noncommercial nonagricultural exports and only relatively small amounts of agricultural products are exported under these programs. These small amounts of agricultural products are derived by ERS in the same way that BPD derives the total.

The Contribution of Noncommercial Exports.--Deriving the commercial trade balance for agriculture still does not measure agriculture's contribution to the balance of payments since benefits may ultimately be derived from some of the noncommercial exports. Credits extended, as under the dollar credit sales provision of the P.L. 480 Act and by the Export-Import Bank, will be repaid and some of the local currencies derived from noncommercial sales of agricultural products abroad may be used instead of dollars by U.S. agencies in meeting overseas expenditures. However, there are no monetary returns from grants.

Note that the credits being repaid now may be the result of noncommercial export transactions that occurred several years earlier, and the local currencies used also could have been earned in an earlier period. Therefore, when these dollar returns or savings are added to commercial exports and to the commercial trade balance, the trade account and the capital account are mixed, and the results should not be interpreted as being "adjusted" commercial exports or an "adjusted" commercial trade balance. They represent agriculture's contribution to the balance of payments--not just its contribution to the trade account.

Data on the amount of local currencies used by U.S. agencies is available from the BPD and data on repayments of P.L. 480 dollar credit sales are compiled in USDA. The repayments of Export-Import Bank credits were computed by ERS, based on data from the Bank.

Dollar returns or savings on the noncommercial exports of the nonfarm sector are not available, but they no doubt would be sizable.

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WASHINGTON, D.C. 20250

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