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Business & Financial Letter

Conflicting Goals

The conflicting goals of the export drive and the price freeze were highlighted in the President's anti-inflation message, when he called upon Congress to grant him authority to impose export controls whenever such action seemed necessary to stabilize domestic prices. In recent years, farm exports have been one of the few bright spots in the balance-of-payments picture, but at the same time, they have drained resources out of the domestic economy, and have helped push retail food prices to ever-higher levels. The President's "basic decision" thus was almost automatic: "In allocating the products of America's farms between markets abroad and those in the United States, we must put the American consumer first."

Shipping reports

As a first step toward this goal, the President requested further authority to impose export quotas, in the form of an amendment to the Economic Stabilization Act of 1970. (Present law already gives him limited powers in this regard.) As a second step, he imposed an export-reporting program: all exporters henceforth must furnish weekly reports to the Commerce Department, listing anticipated shipments of a number of food and feed grains, oilseeds, and grain and oilseed products.

Previously, export data were available only after a considerable time lag. Today, such data will be available prior to shipment, thus providing Administration planners with sufficient information to determine whether export restrictions are necessary. The monitoring system is now concerned only with commodities that affect the price of animal feeds—the major problem items in recent months—but other commodities (such as lumber) could be added to the list at any time.

The legislation authorizing further export-quota powers is now working its way through the Congressional mill. Its future is somewhat uncertain; the House Banking Committee voted to give the President less authority than he had requested, and other hurdles must also be surmounted prior to enactment. Some Congressmen look with disfavor upon the proposal because of their belief that the several devaluations of the dollar provide a singular opportunity for stimulating farm exports.

Spectacular reports

Whatever the fate of the export-control legislation, there is no uncertainty about the recent record of farm exports, which has been nothing short of spectacular. In the first three quarters of fiscal 1973, exports rose 49 percent above the year-ago figure, to a record $8.9 billion. Grain exports alone accounted for three-fifths of the total increase, but shipments of soybeans, cattle hides, cotton, meat, poultry, fruits, nuts and vegetables also rose substantially.

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Exports to the USSR increased sixfold over this period, to $0.6 billion, but a solid expansion also occurred in the larger and more traditional markets. Western Europe took $2.8 billion, up about 40 percent over a year ago. Japan, our most important customer, reported an 83-percent increase, to $1.6 billion, which offset much of the trade imbalance in nonfarm commodities with that country.

U.S. farm exports over time have become crucially important to world trade and to our own balance of payments—and also to the well-being of the nation's farmers. Last year, American farmers supplied about one-sixth of the products in the non-Communist world's agricultural trade, and a rapidly growing share of the Communist world's trade as well. In addition, they made a significant contribution to the balance of payments, as agricultural commodities accounted for 18 percent of total U.S. exports as against 12 percent of its imports. In nonfarm commodity trade, a long string of surpluses came to an end in 1968, and was followed by extraordinarily large deficits in 1971-72. In agricultural trade, however, substantial surpluses have occurred throughout the past decade, capped by very large surpluses of $1.9 billion in 1971 and $2.9 billion in 1972.

Foreign sales accounted for 16 percent of the farm sector's marketing receipts last year. Export sales accounted for more than one-half of the U.S. production of soybeans and rice, over two-fifths of its cattle hides, and over one-third of its wheat production. Of course, the recent spectacular performance may not continue forever. In particular, with Great Britain and others now standing on the other side of the Common Market's trade barrier, the U.S. could lose some important markets for its grains, tobacco, fruits, and other products.

Production problems

This problem does not loom so important at the present time, however, since the agribusiness community is concerned right now with overcoming its production problems, and thereby curbing the price upsurge. Livestock marketings recently have been affected by a number of problems—especially the weather,with unusually large losses of cattle and calves occurring because of a series of harsh winter and spring storms. But other factors have also hurt, such as the consumer meat boycott, the ban on the growth stimulant DES, and the imposition of ceilings on retail prices.

The crop sector has been equally affected, just at a time when farmers were attempting to bring 25 million more acres under cultivation—the largest increase of the past 30 years. The worst disaster has been the widespread floods in the Midwest, which have seriously delayed plantings of grains and soybeans. This weather factor, combined with very heavy demand and low prospective carryover, has caused an upsurge in feed prices that will eventually impact on meat

supplies as well. The situation has been complicated also by shortages of fuel and fertilizer in various locations, and by transportation tie-ups affecting overseas grain shipments.

Price problems

This crushing set of supply problems has been the primary cause of the failure of the Administration's farm economists to foresee the scope of the recent price upsurge. Last fall, these forecasters came out with an estimate of a 3-percent rise in food prices this year, but they have long since been forced to junk that estimate, and now anticipate a rise of 12 percent or more for the year.

Several demand factors have also caused the forecasters' price equation to go awry. One major factor was the boom-based upsurge in consumer incomes, felt most severely in the demand for red meat. Another factor was the Soviet wheat sale, and still another was the stimulus of two devaluations (and a floating dollar) on foreign demand for U.S. feed grains and other products. Altogether, perhaps one-sixth of the total increase in food prices this year may be attributable to the export boom. Consequently, any attempt to halt the price spiral involves some curbs on the export trade.

Phase 4, as it develops over the next month or so, undoubtedly will involve some such restrictions, according to the present thinking of Herbert Stein, chairman of the Council of Economic Advisers. Stein said last week that the food-price controls envisioned under the new program will have to be combined with adjustments of food supplies, and he called export controls "the only powerful instrument in that area available for the medium-term future."

Bright prospects

Over the longer term, once the present domestic difficulties are surmounted, the American farmer should again be unleashed to help solve the nation's international difficulties. In no other area are the prospects so bright for an improvement in the U.S. balance of payments, as has been shown by the record of the past several years. This April, an interagency task force reported that the liberalization of trade in grains, feeds, and livestock could lead within a decade to an $8-billion annual gain in the balance of payments. This same report—the Flanigan report—envisioned at the same time a $4-billion rise in net income to farmers and a comparable reduction in taxpayer payments for wheat and feed-grain support costs.

This bright forecast assumes that the forthcoming trade talks this fall will bring about a liberalization of agricultural trade worldwide, including the easing of restrictions in the Japanese and European markets. The task may be eased, however, by the present burgeoning demand in overseas markets, which will undoubtedly lead foreigners to increase their reliance on American farmers, operators of the world's foremost granary.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 6/13/73	Change from 6/6/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments*	73,748	+ 861	+ 10,655	+ 16.89
Loans adjusted—total*	56,584	+ 885	+ 11,264	+ 24.85
Commercial and industrial	19,910	− 296	+ 3,304	+ 19.90
Real estate	16,270	+ 106	+ 2,724	+ 20.11
Consumer instalment	8,278	+ 18	+ 1,354	+ 19.56
U.S. Treasury securities	5,718	+ 106	− 904	− 13.65
Other securities	11,446	− 130	+ 295	+ 2.65
Deposits (less cash items)—total*	70,992	+ 106	+ 8,742	+ 14.04
Demand deposits adjusted	21,474	+ 334	+ 1,748	+ 8.88
U.S. Government deposits	420	− 25	− 103	− 19.69
Time deposits—total*	47,913	+ 8	+ 7,020	+ 17.17
Savings	17,994	− 57	− 61	− 0.34
Other time I.P.C.	20,255	+ 194	+ 5,051	+ 33.22
State and political subdivisions	6,987	− 213	+ 1,178	+ 20.28
(Large negotiable CD's)	9,703	+ 266	+ 4,514	+ 86.99

Weekly Averages of Daily Figures	Week ended 6/13/73	Week ended 6/6/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	− 35	114	− 40
Borrowings	229	193	0
Net free (+) / Net borrowed (−)	− 264	− 79	− 40
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (−)	+ 626	+ 487	− 949
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	+ 575	+ 116	− 80

* Includes items not shown separately.

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