Research Department
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FRBSF Weekly Letter

Food for Crude

"Cheaper Crude or No More Food!" "A Bushel of Wheat for a Barrel of Oil!" Pop tunes and bumper stickers express Middle American resentment at renewed OPEC aggressiveness following the Iranian revolution. I am reminded of Tom Lehrer's "Folksong Army" about the Spanish Civil War, "They won all the battles but we had all the good songs!"

Pop tunes and slogans combine and confuse two issues which should be kept separate. One issue is the old-time populist preference for direct barter over buying and selling. (Elderly Californians remember Upton Sinclair's EPIC — End Poverty In California — plan to employ the unemployed in closed-down factories and trade the products with each other.) The other issue is American organization and leadership of a cartel of oil buyers and grain sellers, first to bargain collectively with and eventually to wreck the OPEC cartel of oil producers. This would be economic warfare, and economic warfare is serious business.

Barter pure and simple
Any first-year course in Economics explains the need for money by the infrequency of "double coincidence of wants" under barter. But when "double coincidence" does exist, as between the U.S. and OPEC in grain and petroleum, barter pure and simple seems a reasonable device which might even save brokerage fees and middlemen's profits, not to mention taxes. But the disagreement between OPEC and ourselves is about "reasonable, just, and fair" prices (whatever these may be) for oil. It will not evaporate when we argue in bushels instead of dollars. "A bushel of wheat for a barrel of oil" approximates the relationship of the early 1970's. Present (June 1979) and anticipated relative prices are more like five or even six bushels of wheat for a barrel of oil, and why is one set of "barter terms of trade" more or less equitable than the other?

Trade bargaining and economic warfare
So what the pop singers and bumper decorators want is not barter but pre-1973 terms of trade. How can these be secured, if at all?

The answer, if there is one, has much more to do with collective bargaining and economic warfare than with barter as a substitute for money. A conceivable first step might be to centralize U.S. oil imports and/or food exports under control of a public agency, to represent American oil consumers and food exporters vis-a-vis OPEC as the United Auto Workers Union represents all its members against Ford or General Motors. Such an agency would have to control (ration, tax) not merely oil imports from and grain exports to the several OPEC countries, but would have to do the same from and to the entire world. This is because, when non-OPEC countries like Canada or Mexico raise their oil prices under protection of the OPEC umbrella, it is easy to disguise the origin of the oil they export. It should be even easier for OPEC countries to import U.S. grain through third countries, unless the U.S. imposed a police system such as it did against the Axis Powers in World War II.

Over and beyond the national level, international agreements may be required among the world's principal oil importers and also the world's principal grain exporters. This would be absolutely necessary if, as I think likely, OPEC as a whole (or at least its Arab members plus Iran) were to interpret our individual centralization efforts as acts of economic warfare and respond to any potential "buyer's strike" by a 1973-model boycott.

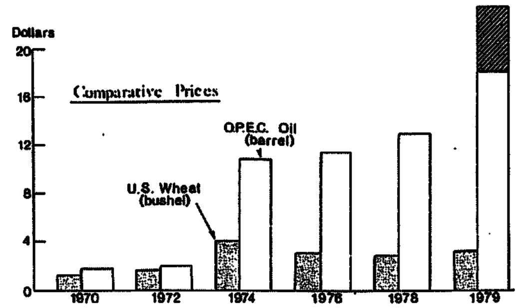
Were the U.S. alone to stop buying OPEC oil, or suffer an OPEC boycott, American factories and farms would suffer relative to European, Japanese, and other competitors whose oil supplies would surely increase and possibly also fall temporarily in price. American farmers would also suffer a second blow, this time relative to Canadian, Argentine, Australian, and French competitors on important Middle Eastern and other OPEC markets, if their exports were also boycotted.

Prospects for anti-OPEC co-operation
Nor is there any certainty that effective anti-OPEC alliances could be organized, let alone maintained, among either petroleum importers or grain exporters. In the absence of large oil supplies already in storage, important industrialized countries would begin to suffer acutely from energy crises long before any important OPEC country became acutely short of food. This is more true for countries like Japan, without important domestic oil resources, than for the United States or Britain. And thus Japan has been not merely averse but actively hostile to any anti-OPEC action whatever during the entire post-1973 period. (France has also been recalcitrant, primarily because of close economic ties with Algeria, a leading OPEC "hawk.")

On the food front: Resentment of Western domination, sentiments of Third World solidarity, and sentimental charity in the face of under-nourishment of innocent women, children, and old folks in OPEC countries will come into play against any grain boycott. Furthermore, authoritarian socialist and "non-aligned" regimes all over the world will also be important in making up OPEC's food deficits, even at the cost of domestic suffering in those countries themselves. (Recall Count Sergei Witte's "Starve but export" wheat policy during Czarist Russia's own "economic miracle" of 1880-1900!)

We find it consoling to think of "The West" as organized, advanced, civilized, co-operative, and what have you, while OPEC is a motley collection of under-developed camel-drivers and Darwinian men from the Harvard Business School. But in matters of effective international action, the shoe is on the other foot. OPEC membership seems a more effective basis for alliance than any "Rich Man's Club". Compare the American reluctance (documented by Yvonne Levy in the May 25 issue of the *Weekly Letter*) to export Alaskan oil to Japan with the probable Saudi reaction to food running low in Abu Dhabi or the probable Algerian reaction to food running low in Libya—or even Nigeria!

After the summit
The summitteers at the recent Grand Economic Summit at the Tokyo *Geihinkan* included the U.S., U.K., France, West Germany, Italy, Canada, and Japan, but no member of either OPEC or the Soviet bloc.



Oil was the major focus of attention, but Summit or no Summit, nobody was out to challenge OPEC's unorthodox interpretation of Supply and Demand—"If you cut demand, we'll cut supply."

"Food for Crude" is not on the agenda. True, individual Congressmen are drafting bills along that line. More importantly, I suspect, the Sudan and possibly other Moslem countries are soliciting additional OPEC aid to irrigate themselves into the position of OPEC granaries in case we try something of the sort in the future, or perhaps to discourage our thinking in this direction. A recent upsurge in Soviet purchases of wheat futures may be designed for export to OPEC countries as well as for domestic insurance against a poor crop year. The Western summitteers will be lucky to mount an effective and coordinated buyers' strike against the current propensity of spot oil prices to surge above official-OPEC and OPEC-member prices in periods of summer vacations or winter chill.

No more than the Third Reich or the Mafia is OPEC either invulnerable or invincible. It cannot, however, be starved out overnight, over a long-weekend, or over a month or two by Americans brandishing pop songs and bumper stickers while demanding trade on terms more favorable to themselves. Even international Organizations of Petroleum Importing or Grain Exporting Countries (OPIC, OGEC) had best wait until we obtain substantial petroleum reserves, solar or nuclear power, or major changes in our life style.

Martin Bronfenbrenner

(The author, Professor of Economics at Duke University, is Visiting Scholar at the Federal Reserve Bank of San Francisco this semester.)

Conference Proceedings Available

Copies are now available of the *Proceedings* of the 1978 West Coast Academic/Federal Reserve Economic Research Seminar. The *Proceedings* contain six papers (with discussion) on various aspects of monetary policy, both domestic and international. The *Proceedings* are aimed primarily at an audience of financial analysts and academic economists . . . Free copies of the *Proceedings* of the 1978 conference—as well as the *Proceedings* of an earlier (1976) conference—can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 6/20/79	Change from 5/16/79	Change from year ago @ Dollar	Percent
Loans (gross, adjusted) and investments*	127,530	729	+ 17,632	+ 16.04
Loans (gross, adjusted) — total#	104,933	987	+ 16,961	+ 19.28
Commercial and industrial	30,401	183	+ 3,145	+ 11.54
Real estate	37,979	242	+ 8,113	+ 27.16
Loans to individuals	21,950	114	NA	NA
Securities loans	1,835	241	NA	NA
U.S. Treasury securities*	7,661	− 20	− 668	− 8.02
Other securities*	14,936	− 238	+ 1,339	+ 9.85
Demand deposits — total#	42,552	− 220	+ 1,742	+ 4.27
Demand deposits — adjusted	30,302	− 923	+ 1,336	+ 4.61
Savings deposits — total	29,906	2	− 431	− 1.42
Time deposits — total#	50,272	436	+ 5,247	+ 11.65
Individuals, part. & corp.	41,553	485	+ 6,132	+ 17.31
(Large negotiable CD's)	17,257	389	− 159	− 0.91

Weekly Averages of Daily Figures	Week ended 6/20/79	Week ended 6/13/79	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (−)	− 9	− 8	55
Borrowings	17	165	131
Net free reserves (+)/Net borrowed(−)	− 26	− 173	− 76
Federal Funds — Seven Large Banks			
Net interbank transactions [Purchases (+)/Sales (−)]	+ 250	+ 739	+ 311
Net, U.S. Securities dealer transactions [Loans (+)/Borrowings (−)]	+ 184	+ 125	+ 170

* Excludes trading account securities.
\# Includes items not shown separately.
@ **Historical data are not strictly comparable due to changes in the reporting panel; however, adjustments have been applied to 1978 data to remove as much as possible the effects of the changes in coverage. In addition, for some items, historical data are not available due to definitional changes.**

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