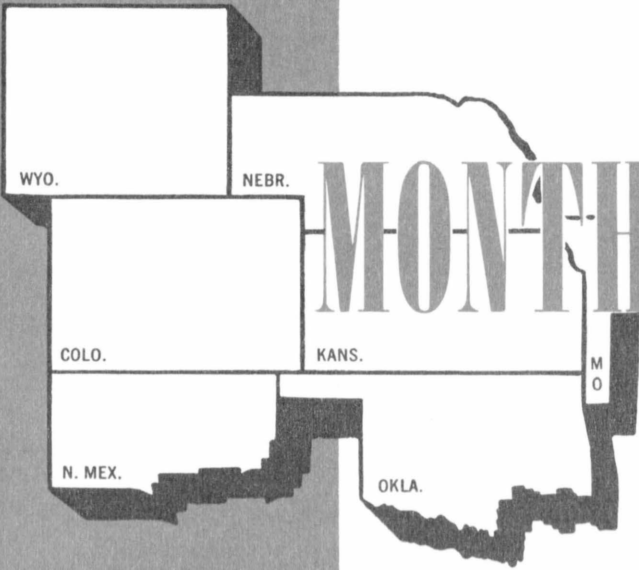
November-December 1962



MONTHLY REVIEW

In This Issue

FEDERAL RESERVE BANK
OF KANSAS CITY

THE CHANGING SHAPE OF WORLD TRADE

The passage of the Trade Expansion Act of 1962 has been hailed as a historic step forward in promoting the liberalization of international trade. There is little doubt that the new trade bill does represent a significant departure from the past in terms of the wide latitude it confers upon the executive branch of the Government to deal with the initiation and/or modification of international agreements. It is exceedingly important to note as well, that its passage was, in no small measure, a response to a metamorphosis in the world trade structure. It is in connection with these developmental changes in world trade over the past few decades that the primary attention of this article is focused.

THE BACKGROUND

Within recent years, a new dimension has been added to the structure of world trade. This phenomenon—described as economic regionalism—is manifested by the development of distinctly regional economic trading blocs. A consequence of this is the increased emphasis which has been focused upon the bloc as the vehicle through which the trading policies of the individual countries are harmonized. This new dimension has been superimposed upon the classic pattern of multilateral trade between individual nations as envisaged by the Reciprocal Trade Agreements Act of 1934, and the 1947 General Agreement on Tariffs and Trade. Table 1 identifies the major regional trading entities in order of their establishment and compares their respective areas and populations with those of the United States so that some idea may be grasped as to their relative magnitudes.

The best known trading bloc is the European Economic Community, known as the European Common Market. The rapid growth and apparent success of the Common Market has had a profound effect on the restructuring of foreign trade relationships and has resulted in the spawning of a number of other regional groupings, such as the European Free Trade Association and the Latin American Free Trade Association. In addition, the Eastern European Council for Mutual Economic Assistance, or Comecon as it is commonly known, is the Communist regional counterpart designed to promote economic cooperation among Soviet satellites. Thus, the idea of regional trading

Table 1

MAJOR ECONOMIC TRADING UNITS

	1959 Population (In Millions)	Area (Thousands of Sq. Miles)
European Economic Community*	167.5	457.7
European Free Trade Association**	89.0	493.1
Latin American Free Trade Association†	158.3	10,374.6
Total	414.8	11,325.4
United States††	179.2	3,615.2

*Includes Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany; excludes European and overseas associated countries and territories.
**Includes Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland.
†Includes Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.
††Includes Alaska and Hawaii.

SOURCE: European Economic Community, European Free Trade Association, and U. S. figures are from Benoit's **Europe at Sixes and Sevens;** Latin American Free Trade Association figures are from **U. N. Statistical Yearbook, 1960.**

groups is peculiar neither to the Free World nor to Europe alone.

However, while the Latin American Free Trade Association is a unique cooperative venture for that area, the apparently recent growth of regionalism in Europe may be traced back to the period shortly after the close of World War II. Probably the earliest step in the direction of economic cooperation occurred in 1921 when a customs union was formed between Belgium and Luxembourg.

The groundwork for eventual European economic integration was laid in mid-1947 with the United States offer of Marshall Plan aid to Europe conditional upon the undertaking of a cooperative effort on the part of the European countries to establish an effective recovery program. In July 1947, 16 countries of Western Europe established a Committee for European Cooperation, resulting in the establishment of the Organization for European Economic Cooperation (OEEC) on April 16, 1948.[1] Earlier in that year an event took place which was to portend the shape of things to come in Europe. This was the expansion of the Belgium-Luxembourg customs union to include the Netherlands in the formation of Benelux.

Since the formation of OEEC was in response to proposed U. S. aid in the reconstruction of the West European economy, one of the immediate concerns of that organization was the formulation of plans which would enable participating countries to utilize such aid and assistance effectively. In addition to this, attention was directed by that body to such problems as combating the "dollar shortage" existing at that time, promoting increased intra-European and external trade through the liberalization or elimination of quantitative restrictions, achieving methods for increasing productivity of European industry, and additionally, formulating procedures for the eventual economic unification of Western Europe.

Although it was the hope of the OEEC to create a free trade area which would encompass the whole of Western Europe, this was not to be realized. While the OEEC did achieve some degree of success in eliminating quantitative restrictions on trade, it proved to be ineffective in combating tariffs. For this and other reasons, some countries therefore felt that a more far-reaching approach to integration was needed. The first step, in April 1951, was the signing of a treaty establishing the European Coal and Steel Community (ECSC). Known as the Schuman Plan, it became operational in August 1952. Its members included West Germany, France, Italy, and the Benelux group. The effect of the plan was to establish a common market in coal, iron, and associated products which was totally free of all impediments to free movement of such products within the market area. It was from the initial success of this cooperative venture that the more ambitious scheme for an expanded common market arrangement stemmed.

By 1955, the advantages of the European Coal and Steel Community were evident to its members, and accordingly, they gave serious consideration to forming a larger customs union along the lines of the ECSC. This decision by the six ECSC members to go it alone prompted an investigation within the OEEC of the possibilities of a multilateral association with the proposed common market and the remainder of the OEEC group. Their findings indicated that such a relationship with the Six would be technically possible and economically advantageous. Negotiations among the Six culminated in the acceptance of the articles of the Treaty of Rome on March 25, 1957, and less than a year later, on January 1, 1958,

[1] It originally included Austria, Belgium, Denmark, Eire, France, Greece, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom. West Germany was added shortly thereafter and in July of 1959, Spain became a full member.

the European Economic Community (EEC) came into being. In response, some OEEC countries actively pursued the establishment of a free trade area which, under the original plan, would have comprised all OEEC countries including those of the Common Market. By the latter part of 1958, negotiations along these lines had ended in disappointment. The implementation of the Treaty of Rome began on January 1, 1959, with the first tariff reductions within the European Economic Community. Within several months, at the invitation of Sweden, six other nations—Austria, Denmark, Switzerland, Portugal, Norway, and the United Kingdom—met to further the establishment of a free trade area which it was hoped would act as a parallel force to the EEC. By the close of 1959, the European Free Trade Association (EFTA) had become a reality and the new economic regionalism was represented on the Continent by the Six of the Common Market and the Seven of the European Free Trade Association.

It is important at this juncture to distinguish between the two terms "free trade area" and "customs union." In essence, a customs union is an arrangement among the participating countries whereby all internal barriers to trade among members are dispensed with and a common economic policy with respect to external trade is established. Benelux was an example of such a customs union even before the Common Market was a reality. The European Economic Community is an example of such a classic customs union with its ultimate external tariff for the most part being an unweighted arithmetic mean of the former tariffs of the individual members. However, the founders of the EEC aimed at more than a customs union; they desired the subordination of the individual nation's monetary and fiscal policies, domestic political considerations, and agricultural and transport policies in favor of an integrated approach for the entire union. Thus, the Common Market not only involves economic integration, but also contemplates a large measure of political unification.

In contrast with the customs union approach to the European Economic Community, the European Free Trade Association pursued less extensive goals. Within this free trade area, all barriers to internal trade were to be removed, and in this respect there was no difference between the "customs union" approach of the Common Market and the "free trade area" approach. However, several important differences did distinguish the latter from the former. The free trade area would not be characterized by a common external tariff, this being left to the discretion of each country, and no extensive attempt would be made to harmonize agricultural, transport, fiscal, monetary, or any other issue of domestic policy among the participants. All in all, the objectives of the European Free Trade Association were quite modest in contrast with those of the European Economic Community. The aims of the former were simply to liberalize trade among the members while allowing almost complete autonomy in the conduct of domestic and international economic affairs. In the latter case, a more extensive economic and political integration was sought with the eventual end being some form of supra-national organization.

It was this clear-cut distinction between the two schools of thought in the economic rebirth of Western Europe which preordained the outcome of the efforts to establish a free trade area for the whole of Western Europe. However, in a short time the success of the Common Market would cause a reassessment on the part of Britain, the leader of the EFTA. On July 31, 1961, scarcely more than a year after the European Free Trade Association convention had been ratified by the member nations, Great Britain made public its decision to apply for full membership in the European Economic Community. Although this issue is not yet resolved, the United Kingdom could become the seventh member of the European Community. The fate of the EFTA in that event is conjectural; the loss of Great Britain would undoubtedly diminish its strength. Once the question of British membership has been resolved, the answers to this and other questions may be clarified.

WORLD TRADE OVER TIME

In 1938, the volume of world exports was equal to $23.5 billion; by 1948 the level of exports stood at $57.3 billion; at the close of 1961 this figure exceeded $133 billion. This was an absolute increase in excess of $100 billion and a percentage gain of more than 450 per cent in less than 25 years. Although the trade figures are not measured in constant dollars, the growth of world trade during the period is substantial, even after allowances have been made for world-wide price inflation. However, the gains in the volume of trade have not been distributed equally among the trading nations and while some have fared well both in an absolute and a relative sense, others have not.

Table 2 shows the percentage of world exports accounted for by the developed and the so-called underdeveloped areas for the period 1938 through 1960. It can be seen that the developed areas have managed not only to retain their traditional export share over this period, but have increased this share slightly —from about 65 per cent in 1938 to 67 per cent in 1960. As for the underdeveloped areas, the picture is not quite so bright. Beginning in 1938 with 25 per cent of world exports, this group increased its share to nearly 30 per cent in 1948, but from then to 1960 its share has steadily declined, reaching little more than 21 per cent in 1960. The fact that this downward trend in export shares was in evidence before the European Economic Community or the European Free Trade Association had come into existence indicates that at least through 1958, these developments ought not to

Table 2
WORLD EXPORT SHARES BY BROAD AREA CLASSIFICATION
(Per Cent of World Trade)

	Developed Areas*	Underdeveloped Areas**
1938	64.7	25.1
1948	63.7	29.8
1949 and 1950	†	†
1951	63.1	29.3
1952	65.1	26.1
1953	64.8	25.6
1954	64.1	25.9
1955	64.5	25.5
1956	66.1	24.2
1957	67.0	22.9
1958	65.7	23.0
1959	65.3	22.4
1960	66.9	21.4

*United States, Canada, Western Europe, Japan, Australia, New Zealand, and South Africa.
**Total of regions other than Developed Areas and Eastern Europe and China (mainland).
†Data for 1949 and 1950 are not comparable as they exclude trade with the Soviet Union and other Communist nations.
SOURCE: **U. N. Statistical Yearbook, 1961.**

be blamed for the poor performance of the underdeveloped areas. Rather, a combination of factors such as changes in the demand pattern for products of these areas, and an increase in the avenues of supply for these items, which have resulted in a secular decline in their market prices, might more logically be held responsible for the group's relative decline.

Both the Latin American Republics and the newly emerging African states, as well as others, are included among the underdeveloped areas. However, an interesting pattern has emerged in the respective trading structures of the two groups of nations in response to structural changes elsewhere. A large number of the African states are presently "overseas associates" of the European Economic Community and thus will receive preferential treatment on their exports to that market. Consequently there has been less motivation for development of a regional trading bloc on that continent, although some regional groupings are emerging, or are in prospect. On the other hand, negotiations among the Latin American Republics led to the formation of the Latin American Free Trade Association early in

1960. This move logically can be interpreted as an attempt to achieve a more rational pattern of industrial development by providing access to a wider but still protected market, as well as an attempt to set up a countervailing force in future negotiations with the European Economic Community. Whether it will serve to improve their position remains to be seen.

If the distribution of world export shares in Table 2 is broken down, as in Table 3, to show the percentage of world exports accounted for by the major trading nations or regions, several interesting aspects of the changing trade patterns may be seen. Although the total volume of world trade has increased considerably since 1938, interestingly enough the percentage distribution of world export shares in 1961 showed that only the two major trading nations, the United States and Canada, and the countries of the EEC, have managed to record gains in their respective positions during this period. However, for both the United States and Canada the high-water mark in export shares was reached a number of years ago. While both countries exceeded their prewar shares in 1961, they have been experiencing a decline in their respective positions for almost a decade. At the close of 1961, the Latin American Republics, Japan, and the Australia-New Zealand-South Africa group still had not regained their prewar share of world exports. As a matter of fact, the trend of export shares for the period is decidedly downward for all of the group except Japan, which alone shows promise of regaining its former share of the world market if the upward trend for Japanese exports continues. Great Britain's decision to apply for membership in the European Economic Community implies an end to the preferred treatment for Australian and New Zealand exports, a development which can only serve to accelerate the downward trend in their world export shares.

Referring again to Table 3, an interesting feature becomes apparent with respect to the relative export shares positions of the EEC and EFTA groups. Although Western Europe had slightly increased its share of world exports in 1961 relative to 1938, the distribution of the trade gains among the countries constituting the present EEC and EFTA blocs was far from

Table 3

Gains in World Exports Have Not Been Shared Equally By the Major Traders

World Trade Exports in Millions of Dollars f. o. b. (Bold Face Type)
Respective Shares of World Trade in Per Cent (Light Face Type)

	1938	1948	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
World*	**23,500**	**57,300**	**82,400**	**80,000**	**82,000**	**85,500**	**93,100**	**103,100**	**111,100**	**107,300**	**115,100**	**127,500**	**113,040**
United States of America	**3,064**	**12,545**	**14,888**	**15,054**	**15,661**	**14,986**	**15,430**	**18,947**	**20,682**	**17,732**	**17,448**	**20,325**	**20,670**
	13.0	21.9	18.1	18.8	19.1	17.5	16.6	18.4	18.6	16.5	15.2	15.9	15.5
Canada	**865**	**3,109**	**3,750**	**4,434**	**4,220**	**4,034**	**4,386**	**4,916**	**5,094**	**5,045**	**5,536**	**5,563**	**5,790**
	3.7	5.4	4.6	5.5	5.2	4.7	4.7	4.8	4.6	4.7	4.8	4.4	4.4
European Economic Community	**4,360**	**6,500**	**13,790**	**13,770**	**14,090**	**15,780**	**18,370**	**20,070**	**22,470**	**22,770**	**25,230**	**29,730**	**32,330**
	18.6	11.3	16.7	17.2	17.2	18.5	19.7	19.5	20.2	21.2	21.9	23.3	24.3
European Free Trade Association	**4,150**	**9,560**	**12,230**	**12,010**	**12,000**	**12,640**	**13,760**	**15,220**	**16,190**	**15,760**	**16,680**	**18,210**	**19,090**
	17.7	16.7	14.8	15.0	14.6	14.8	14.8	14.8	14.6	14.7	14.5	14.3	14.4
Latin American Republics	**1,710**	**6,520**	**7,790**	**7,050**	**7,620**	**7,880**	**7,960**	**8,640**	**8,650**	**8,190**	**8,310**	**8,590**	**8,550**
	7.3	11.4	9.5	8.8	9.3	9.2	8.6	8.4	7.8	7.6	7.2	6.7	6.4
Japan	**1,109****	**258**	**1,355**	**1,273**	**1,275**	**1,629**	**2,011**	**2,501**	**2,858**	**2,877**	**3,456**	**4,055**	**4,320**
	4.7	0.5	1.6	1.6	1.6	1.9	2.2	2.4	2.6	2.7	3.0	3.2	3.3
Australia, New Zealand, South Africa†	**890**	**2,650**	**3,470**	**3,030**	**3,360**	**3,160**	**3,400**	**3,690**	**4,090**	**3,340**	**3,910**	**3,910**	**4,240**
	3.8	4.6	4.2	3.8	4.1	3.7	3.7	3.6	3.7	3.1	3.4	3.1	3.2
Western Europe	**9,240**	**17,780**	**28,230**	**28,800**	**28,210**	**30,660**	**34,470**	**37,680**	**41,340**	**41,130**	**44,700**	**51,230**	**54,880**
	39.3	31.0	34.3	35.0	34.4	35.9	37.0	36.6	37.2	38.3	38.8	40.2	41.3

*Excluding trade of China (Mainland), Mongolia, North Korea, and North Vietnam with each other.
**Although Korea and China (Taiwan) were part of Japan's customs area in 1938, the figures here shown have been adjusted to include the intertrade among the three areas.
†Figures for all periods have been adjusted to approximate trade of present customs area.

NOTE: EEC treaty effective January 1, 1958; EFTA convention ratified in 1960.

SOURCE: 1961 figures from **U. N. Monthly Bulletin of Statistics,** June 1962; all others from **U. N. Statistical Yearbook, 1961.**

equal. While the EEC countries were increasing their share of the export trade from 18.6 per cent in 1938 to more than 24 per cent in 1961, those countries in the EFTA saw their share of world exports decline from less than 18 per cent in 1938 to little more than 14 per cent at the close of 1961. Furthermore, while the figures in Table 3 indicate vigorous growth for the EEC nations, almost the entire decade of the 1950's is characterized by a relative decline in the world markets for the EFTA group.

A further example of the dynamism of the EEC in contrast with the EFTA nations is in terms of the absolute differences in their respective shares of world exports for the period. In 1938, the EEC group of countries recorded \$210 million more in world exports than did their EFTA counterparts; in 1948, however, the scales had shifted in favor of the EFTA group by more than \$3 billion. The shift was temporary, however, and could be attributed to the wartime destruction of the physical plant on the Continent as well as the attendant political turmoil. This was clearly evidenced by the figures for the period 1951 through 1961. For example, in 1951, EEC countries recorded \$1,560 million more in the volume of exports than did the EFTA. This marked the beginning of an unbroken trend of ever-widening absolute margins between the two groups, climaxed in 1961 by an excess of EEC exports of more than \$13 billion over EFTA shipments. A large portion of this increased EEC trade undoubtedly represents a stepping up of intra-EEC trade at the expense of traditional external markets as a result of the lowering of internal trade barriers.

While these "trade diversion" effects of the Common Market should not be overlooked, it should also be pointed out that the freeing of trade within the Common Market area must have also resulted in a considerable amount of "trade creation." For example, statistics published by the United Nations show that the U. S. share of exports going to the EEC increased from 13.5 per cent in 1959 to nearly 17 per cent in 1960, and again rose to more than 17 per cent in 1961.[2] However, it should also be noted that during this same period Western Europe was undergoing a strong cyclical expansion which resulted in an increased demand for U. S. exports of capital goods.

While it is generally recognized that a shrinking share of world exports is considered undesirable, the seriousness of such a situation varies with respect to the relative importance which foreign trade assumes in the process of income creation for any particular country. An approximate measure of changes in the relative importance of foreign trade as a national income-producing activity is the percentage which exports are of gross national product over time for each country. Table 4 provides this information for selected countries, including all those within the EEC.

For most of the last decade, exports were from 10 per cent to more than 35 per cent of the GNP of the various countries comprising the Common Market. Furthermore, in most instances for these same countries, exports are an increasing proportion of the total national income over time. In the case of Japan, exports as a percentage of GNP have been rising almost steadily since 1953 and were equal to more than 10 per cent of total income from 1956 through 1960. In the case of the United Kingdom, Canada, and the United States, however, the role of exports as an income producer has diminished over the past decade. Since the ratio of exports to GNP for both the United Kingdom and Canada is more than three times as great as that of the United States, their declining role in world markets has a greater impact on their respective economies than is the case for the United States. However, the fact that exports are little more

[2] See *United Nations Statistical Yearbook, 1961;* see also *U. N. Monthly Bulletin of Statistics,* June 1962.

Table 4

EXPORTS AS A PER CENT OF GROSS NATIONAL PRODUCT

	1948	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
United States	4.9	4.5	4.4	4.3	4.1	3.9	4.5	4.7	4.0	3.6	4.0	4.0
Canada	20.6	18.7	17.9	16.5	15.8	16.0	15.7	15.3	14.8	14.8	15.5	n.a.
Belgium-Luxembourg	22.0	31.6	27.4	24.9	24.2	27.7	29.2	27.7	26.6	27.7	29.7	n.a.
France	n.a.	11.6	9.3	8.8	9.2	10.1	8.4	8.9	9.0	10.7	11.8	n.a.
Germany (Federal Republic)	n.a.	12.3	12.4	12.7	14.1	14.5	15.7	16.9	16.1	16.5	17.2	n.a.
Italy	7.7	10.1	8.0	8.0	8.1	8.4	9.0	10.0	9.4	9.9	11.4	n.a.
Netherlands	17.9	34.1	35.2	33.7	33.9	33.7	33.4	33.3	34.0	35.5	35.9	n.a.
United Kingdom	13.8	18.4	17.2	15.7	15.3	15.6	15.8	15.6	14.5	14.5	14.1	n.a.
Japan	n.a.	9.6	7.8	6.7	8.0	8.9	10.0	10.2	10.4	10.4	10.4	n.a.

n.a. not available

SOURCE: GNP figures from **U. N. Yearbook of National Account Statistics,** 1961; export figures from **U. N. Yearbook of International Trade Statistics,** 1959, Vol. 1.

than 4 per cent of U. S. income does not mean that the implications of a shrinking American share of world markets are not serious. These implications for the domestic economy deserve further investigation, but it is sufficient to note here that the passage of the Trade Expansion Act of 1962 was predicated, to a substantial degree, upon an immediate and serious concern over America's declining relative position in world trade.

CONCLUSIONS

The economic justification for trade and exchange among individuals rests upon the opportunities which such trade affords those parties who voluntarily engage in trading activities to increase their level of satisfaction or utility. This applies equally well to trade between regions or states within a single country, or to trade between different nations. Therefore, the fewer the impediments to trade and exchange, the more easily individuals or nations may enjoy the gains attendant to these activities.

The development of the various regional trading blocs discussed in this article was characterized by one extremely desirable effect. In every instance, the establishment of these regional trading units resulted in the gradual elimination or reduction of the barriers to trade within their boundaries, thereby facilitating trade among the peoples within that bloc. However, the possibility does exist that these same groups, which have on the one hand freed trade internally, may restrict trade with external markets in an effort to expand their domestic industries and insulate them from the forces of worldwide competition. If this should happen, then some of the tangible gains from trade may be largely vitiated and the result will be a less than optimal allocation of the world's economic resources. Although the danger which is inherent in such "trade diversion" is a real one, there is equal justification for assuming that the new structure of world trade will, in the long run, result in increased trade among economically stronger, well-defined regional trading blocs, thus affording to those individuals and nations the gains resulting from increased interregional as well as international trade. Only the future can indicate which of these possibilities will materialize.

American Agriculture and the European Common Market

IN AN INDUSTRY as dynamic as American agriculture, longer-run developments frequently are important in evaluating the current situation. The adjustment problem confronting farmers in this Nation is primarily the result of technological advancement that has caused productivity of resources to increase more rapidly than demand for farm products. Under these conditions, it is necessary to have considerable mobility of resources in the domestic economy or to increase demand for farm products if serious adjustment problems are to be avoided.

Even though much research and educational work has been done on the problem of shifting resources within the economy, they have not shifted rapidly enough to prevent serious difficulties. At the same time, efforts have been made to expand the demand for farm products. Two approaches which have been taken include: (1) attempts to expand domestic demand for farm products by finding new uses for them and by expanding per capita consumption, and (2) efforts to expand export demand for farm products. There are limitations to the achievements that can be attained by either of these approaches. This article will discuss agricultural exports briefly, evaluate some implications of the development of the European Common Market on the potential export demand for farm products produced in the United States, and point out the major provisions contained in the Trade Expansion Act of 1962.

AGRICULTURAL EXPORTS

During the past 2 years, approximately 15 per cent of all cash receipts from farm marketings in the United States has come from exports. Although a considerable proportion of these exports was sold for dollars, a substantial quantity was moved under Public Law 480 and by other special Government programs. Measured in physical terms, movement during the past 2 years has been at record-high levels. Since there is a food shortage in most areas of the world, it is suggested frequently that the outlook for a continued growth in export demand for American farm products is unusually favorable. Such forecasts often ignore both potential and actual difficulties.

Although many underdeveloped nations have a great need for food and fiber, they frequently lack purchasing power to obtain farm products for dollars. The United States has attempted to overcome this difficulty through programs in which effective prices are reduced by export payments and in which surplus food and fiber are moved into foreign markets for local currencies, by gift, and by barter. Although such programs can serve a useful purpose both for the United States and for recipient nations, certain difficulties must be recognized. First, unless such programs are handled with extreme care, they are likely to be viewed by other countries as "dumping." Second, they are costly and, therefore, dependent on the continued appropriation of relatively large sums of money. Only to the extent that such programs are carefully planned for long-range development in which future economic demand is created can they be viewed as providing permanent markets.

In the fiscal year July 1, 1961-June 30, 1962, the United States exported $5.1 billion worth of agricultural products. Major markets

EXPORTS TAKE BIG PART OF U.S. FARM OUTPUT

Commodity	Unit	Exports Fiscal Year 1954-60 Average Millions	Exports Fiscal Year 1960-61 Millions	Exports Fiscal Year 1961-62 Millions	Export Share of Total Production Fiscal Year 1954-60 Average Per Cent	Export Share of Total Production Fiscal Year 1960-61 Per Cent	Export Share of Total Production Fiscal Year 1961-62 Per Cent
Wheat*	bu	391.6	660.9	716.5	36	49	58
Dried edible peas	cwt	1.2	1.8	2.0	36	56	57
Rice (milled basis)	cwt	15.2	21.5	20.4	43	56	54
Hops	lb	14.9	17.2	18.3	34	37	52
Tallow	lb	1,229.6	1,465.7	1,631.5	40	38	44
Nonfat dry milk	lb	521.3	633.8	809.2	35	33	39
Cotton	bale	4.6	7.0	4.8	34	49	34
Soybeans**	bu	139.9	228.7	236.6	32	41	34
Dried prunes	lb	91.1	72.7	85.8	30	26	31
Tobacco (farm sales weight)	lb	548.6	569.5	584.5	28	29	29
Raisins	lb	93.6	123.5	127.9	23	32	28
Rye, grain	bu	5.4	7.7	7.5	21	23	27
Barley, grain	bu	73.4	83.0	81.7	19	19	21
Cottonseed†	ton	1.4	1.2	1.1	25	20	19
Grain sorghums	bu	54.4	86.4	85.8	15	14	18
Dried whole milk	lb	39.2	19.0	14.3	37	21	17
Lard	lb	522.9	490.1	432.9	20	21	17
Corn	bu	149.4	260.7	388.8	4	8	11
Dry edible beans	cwt	2.6	2.3	1.7	15	13	8
Flaxseed	bu	6.7	7.0	1.5	18	23	7

* Includes grain equivalent of flour. ** Includes bean equivalent of oil. † Includes seed equivalent of oil.
SOURCE: U. S. Department of Agriculture.

were Japan, the United Kingdom, Canada, West Germany, the Netherlands, India, Italy, United Arab Republic-Egypt, Belgium-Luxembourg, and Spain. Of the total exports, $3.5 billion were commercial sales for dollars and $1.6 billion were moved under Public Law 480 and other Government programs.

Of the $5.1 billion of farm products exported in fiscal year 1962, $1.2 billion, or about 23 per cent, went to the six European Common Market countries. Exports to the Common Market countries accounted for about a third of the $3.5 billion of products sold for dollars. Because of the current significance of the European Common Market and the fact that it is likely to become a substantially more important factor, the U. S. agricultural industry needs to be well informed on developments in the Market.

THE EUROPEAN COMMON MARKET

The European Economic Community—commonly referred to as the European Common Market—was officially established by a treaty signed by six countries in March 1957. The six countries signing the treaty were France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. Greece became an associate member this November. The treaty recognizes the interests of certain overseas countries and territories that have special links with the Common Market countries and provides for expansion. Other countries seeking either full or associate membership include the United Kingdom, Ireland, Denmark, Turkey, Austria, Sweden, Norway, Switzerland, and Spain. The eventual objective is to conduct commerce freely within the area. There are to be no tariffs among individual member countries and no restrictions on movement of goods, capital, services, or workers. It is anticipated, however, that the Common Market, as a unit, will have a single policy on imports from "outside" countries.

Important steps toward implementing the program already have been taken. Tariffs among member nations have been reduced significantly and quota restrictions on industrial goods have been abolished. Some basic decisions also have been taken in formulating a common agricultural policy.

Economic cooperation can be effective in restricting and eventually eliminating some of the intense nationalistic rivalries that have existed historically in Western Europe and have been responsible for much dissension. Furthermore, it is an effort to remove artificial barriers which have throttled business, impeded advancement, and caused suspicions among these nations. The effectiveness of such cooperation at the economic level has been demonstrated. Trade among member nations has increased substantially more than has trade with "outside" nations. The rate of economic growth, although starting from a lower base, has been greater in Common Market countries than in the United States. The attainment of the ultimate objective of harmony in all aspects of social and economic life will be a noteworthy achievement.

On the other hand, it should be recognized that a major undertaking such as the Common Market usually cannot be attained without creating difficult problems. Some of these problems are of particular significance to the agricultural industry in the United States. As was pointed out previously, the Common Market countries, along with those that may become associated with them, have been an important dollar market for United States farm products. Since many agricultural commodities can be produced more efficiently in this Nation than in Europe, there is potential for a considerable expansion of exports to Europe. On the other hand, it must be recognized that a number of difficult obstacles must be overcome before this potential can be realized.

Historically, European nations have made intensive efforts to become self-sufficient in the production of many agricultural products. Because the Common Market countries have encouraged expansion of farm production, they now are insistent on protecting their agricultural industry from imports from "outside" countries. An analysis of the agricultural industry in these countries will be helpful in understanding why these nations are insistent upon maintaining and implementing protective devices.

There are approximately 9 million farms in the six Common Market countries. More than 5 million of these farms are 12 acres or less in size and frequently are composed of several scattered strips of land. Location and design of farm buildings often hamper mechanized handling of livestock. Under these circumstances, it is often difficult to use the most efficient techniques.

The large number of small farms, on which labor requirements are high, has resulted in farmers accounting for more than a fourth of the labor force. Furthermore, there has been a sizable gap between farm and nonfarm income. The large proportion of farmers and the disparity in income have caused these countries to support prices of their farm products at high levels. In recent years, many new techniques have been introduced into European agriculture. By using these techniques, European farmers have been able to expand output rapidly. With price protection, these farmers now see an opportunity to improve their incomes. Without price protection and import controls, foreign producers would become a threat to their industry. Since a substantial proportion of their labor force is engaged in agriculture, the pressure for protection against imports from "outside" countries is great.

Because of these developments, the export market for U. S. farm products is threatened, even though the industry is more efficient in this Nation than in Europe. The threat is largely an outgrowth of the immobility of labor resources between the agricultural and nonagricultural sectors of the economies. The problem in Common Market countries is more difficult than that in the United States, since they have substantially more surplus labor resources in agriculture in terms of use of the most efficient techniques. Thus, they need to devote more effort to solving the structural underemployment problem in agriculture and getting a better balance between the agricultural and nonagricultural sectors of their economy than does the United States. Until problems of this type can be solved and the desire for self-sufficiency in agriculture can be minimized, there will be considerable pressure on the Common Market governments to continue protectionist policies. In fact, the pressure for a continuation of such policies currently is greater in European agriculture than it is in the United States. If certain of the policies currently being proposed are implemented, it will soon become more difficult to sell certain U. S. farm products such as wheat, poultry, feed grains, rice, tobacco, animal products, fats and oils, and certain fruits to the Common Market nations.

Devices proposed by Common Market countries to protect their agriculture include variable import duties, fixed tariffs, and buying preferences. The purpose of variable import duties is to protect farmers in the Common Market countries by offsetting the difference between the world price and the desired internal price through use of these levies. For example, if it is desired that the internal price of wheat should be $2.50 per bushel and it can be imported for $1.75, the duty would be set at 75 cents per bushel. The duty can be changed from time to time as the spread between the desired price and world price varies. Variable duties make it particularly difficult to sell in such markets, since they can be adjusted so as to prevent competition. Such duties, combined with the use of fixed tariffs and buying preferences, make it virtually impossible to trade on an economic basis except to the extent desired by Common Market countries.

Despite regulations promulgated by the Common Market, the United States has continued efforts to maintain grain exports to this important market. The ultimate success of these efforts is expected to depend on the level at which target prices finally are set. Bilateral discussions have led to an understanding with respect to trade in grains, which should help at least partly to maintain United States grain exports to Europe while the Common Market agricultural policy is being implemented. Furthermore, the Common Market has agreed, upon adoption of a common agricultural policy, to enter into new negotiations with the United States.

According to the present schedule, external tariffs on livestock and meat products are to become fully effective in the Common Market by 1970. Similarly, by that time, internal tariffs are to have been abolished. Except for variety meats, tallow, hog grease, lard, and fatback—which are major U. S. livestock exports—duties have not been increased significantly for the bulk of livestock product exports from the United States. However, if current average livestock prices are maintained in the Common Market, production of livestock products likely will increase substantially. Such an increase in production could tend to reduce over-all import requirements. It should be pointed out also that inspection and sanitary controls on many livestock products may continue to limit imports into the Common Market area. The situation currently is quite fluid and, if variable levies are used to support prices at high levels within the Market, trade in livestock products between the United States and the Market could be hampered.

There is some encouragement, however, in the longer-run outlook for livestock product trade with the Common Market. As was pointed out previously, general economic conditions in Western Europe have been improving rapidly and are expected to continue to do so. Under these circumstances, per capita consumption of many livestock products is likely to increase.

To illustrate, per capita red meat consumption in Common Market countries currently is somewhat less than two thirds of that in the United States. With the increasing incomes of recent years, meat consumption has been increasing sharply and is likely to continue to do so. If demand for meat and packinghouse products expands rapidly enough, demand for meat imports from outside countries could increase, even with increased production within the original market and the entrance of meat-exporting countries such as Denmark. Demand for feed grains also could increase under these conditions.

The export situation for many other farm products is quite similar to that for the grains and meats. If proper agreements can be worked out, the demand for agricultural exports from the United States could possibly expand substantially in the future. If such agreements cannot be worked out, there is reason for anxiety concerning the future of much of the export market for farm products from the United States. This is why it is important to keep informed on the continued efforts being made to work out trade agreements with the Common Market.

Prior to the time that the Trade Expansion Act of 1962 was passed, it was extremely difficult even to attempt effective tariff negotiations with the Common Market, since it negotiates tariffs on an across-the-board basis. Under previous legislation, the authority of the U. S. Government to conduct negotiations was limited to concessions which could be granted in exchange for reciprocal agreements and to selective items. Authority was needed to negotiate on a comprehensive basis.

TRADE EXPANSION ACT OF 1962

The purposes of the Trade Expansion Act of 1962, as stated in Title I, are ". . . through trade agreements affording mutual trade benefits—(1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States agriculture, industry, mining and commerce; (2) to strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world; and (3) to prevent Communist economic penetration." Title II provides the authority for the President to enter into trade agreements and revise any existing duties or other import restrictions. Provision for tariff adjustment and other adjustment assistance is made in Title III, while Title IV contains a number of general provisions.

Briefly, the Act gives the President authority to enter into trade agreements with foreign countries during the period from July 1, 1962, to July 1, 1967, if he determines that any existing duties or other import restrictions are unduly burdening the foreign trade of the United States. To accomplish the objectives of the Act, the President, within limits, may modify or continue existing duty or other import restrictions as he determines to be appropriate to carry out proposed trade agreements. Except as otherwise specifically provided for in Title II, the President is limited to a 50 per cent reduction in any rate of duty from the levels prevailing on July 1, 1962. One general exception is made for low-rate articles which are defined as those for which the rate of duty on July 1, 1962, was not more than 5 per cent *ad valorem*. Another general exception pertains to articles that are of special importance in trade between the United States and the European Economic Community. The President also is permitted to increase any duty to a rate not more than 50 per cent above the rate existing on July 1, 1934.

Title II, Chapter 2 of the Act, contains the special provisions concerning the European Economic Community. Section 211 in this chapter gives the President authority to reduce rates by more than 50 per cent in any trade agreement with the European Economic Community providing ". . . the United States and all countries of the European Economic Community together accounted for 80 per cent or more of the aggregated world export value of all articles in such category." To determine which articles fall into this classification, the President is requested to select a system of comprehensive classification of articles by category and the Tariff Commission is to determine the articles falling within each category of such system. Both the President's system of classification and the Tariff Commission's determinations are to be made public. Methods to be used for making a determination with respect to any category of articles are stated in considerable detail. Provision also is made for certain exclusions, requirements concerning negotiations, national security, administrative procedures, and other items of a general nature. The Act provides considerable flexibility for negotiating with the Common Market countries on a comprehensive basis.

Title III of the Act provides for tariff adjustment and other adjustment assistance for workers and industries harmed by imports when industry-wide relief possible under the old law is not feasible. Chapter 1 of this Title specifies the procedures to be used in determining eligibility for assistance. After eligibility has been determined, various types of assistance are provided for on an industry, firm, or worker basis.

If the Tariff Commission determines that, as a result of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to threaten serious injury to the domestic industry producing a competitive article, the President may: (1) provide tariff adjustment for such industry, (2) provide that its firms may request certification of eligibility for adjustment assistance, (3) provide that its workers may require certification of eligibility to apply for adjustment benefits. Assistance available for firms includes Government loans, technical aid, and tax relief. Assistance to workers includes a weekly payment which can equal 65 per cent of the average weekly wage, training, and relocation allowances.

SUMMARY AND CONCLUSIONS

Trade is necessary for any economy to achieve the advantages of geographical specialization. In recent years, the economy of the United States has been the largest in the world within which goods and services have been permitted to flow more or less freely. Thus, the advantages of geographical specialization have been available within the Nation. Many commodities can be produced more efficiently outside this Nation's boundaries, while others can be produced more efficiently in the United States than in most other nations. Many farm products fall in the latter category.

To the extent that each nation produces those items it can produce most efficiently and trades with other nations for the products that they can produce most efficiently, the economic welfare of all nations is enhanced. It is for this and other reasons that the European Common Market was created. There is little doubt that the Common Market will be advantageous to those countries within the Market. It also can be advantageous for "outside" nations if the forces that dictate geographical specialization are allowed to operate and the various nations are permitted to trade.

Factors such as immobility of resources, customs, political considerations, and misunderstandings frequently cause nations to use devices designed to protect certain categories of their citizens. To accomplish such protection, various types of trade-restriction devices are used. Because of these devices, it is necessary for nations to enter into trade agreements with each other and make a mutual effort to minimize these devices if increased trade is to be encouraged. The Trade Expansion Act of 1962 was passed in order to give the President adequate authority to enter into trade agreements with other nations—particularly the European Common Market.

BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits				Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	October 1962 Percentage Change From								September 1962 Percentage Change From							
	Sept. 1962	Oct. 1961	Sept. 1962	Oct. 1961	Sept. 1962	Oct. 1961	Sept. 1962	Oct. 1961	Aug. 1962	Sept. 1961	Aug. 1962	Sept. 1961	Aug. 1962	Sept. 1961	Aug. 1962	Sept. 1961
Tenth F. R. Dist.	†	+9	+2	+13	−1	+5	+2	+8	+2	+10	†	+11	+3	+7	+1	+8
Colorado	†	+9	+1	+17	†	+8	+1	+11	+2	+8	+1	+18	+2	+7	+2	+13
Kansas	**	**	+2	+11	**	**	+1	+7	**	**	−1	+10	**	**	†	+7
Missouri*	−1	+5	+2	+11	−2	+1	+2	+8	+1	+7	†	+10	+4	+6	+2	+9
Nebraska	+4	+10	+4	+14	†	+1	+5	+8	+3	+12	+2	+11	+4	+7	†	+7
New Mexico*	**	**	+6	+18	**	**	+4	+7	**	**	−1	+10	**	**	†	+5
Oklahoma*	†	+14	+2	+11	−2	+8	−1	+8	+3	+13	+2	+6	+3	+9	+1	+10
Wyoming	**	**	−1	+12	**	**	+4	+6	**	**	−1	+12	**	**	+4	+6

*Tenth District portion only. **No reserve cities in this state. †Less than 0.5 per cent.

NOTE: Due to the reclassification of certain Topeka and Wichita banks on August 23, 1962, and Kansas City, Kansas, banks on September 6, 1962, from reserve city to country bank status, data for September 1961 and October 1961 have been adjusted to produce comparability with current figures.

PRICE INDEXES, UNITED STATES

Index	Oct. 1962	Sept. 1962	Aug. 1962	Oct. 1961	Sept. 1961
Consumer Price Index (1957-59=100)	106.0	106.1	105.5	104.6	104.6
Wholesale Price Index (1957-59=100)	100.7	101.2	100.5	100.0	100.0
Prices Received by Farmers (1910-14=100)	245	250	244	240	242
Prices Paid by Farmers (1910-14=100)	307	307	305	301	301

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments			Value of Department Store Sales		
	Percentage change from previous year					
	Oct. 1962	Sept. 1962	Ten Months 1962	Oct. 1962	Sept. 1962	Ten Months 1962
Tenth Federal Reserve District	+8	0	+7	+4	−2	+3
Denver	+11	−2	+7	+2	−8	0
Wichita	+2	−8	+4	+3	−3	+1
Kansas City	+6	+3	+6	+8	+6	+7
Omaha	+12	+7	+9	+8	−4	+1
Oklahoma City	+4	+11	+11	+5	0	+5
Tulsa	+6	−10	+4	+2	+2	+3

Index of

MONTHLY REVIEW *Articles for 1962*

Special Booklets on Banking . . .

The Research Department of the Federal Reserve Bank of Kansas City recently issued two booklets on banking which are available to the public without charge. The first, "Essays on Commercial Banking," contains nine independent studies which were originally printed in the *Monthly Review* and have now been published in book form for the convenience of teachers, students, and others. The second is "A Study of Scale Economies in Banking" and is based on a series of *Review* articles. Copies of either or both may be obtained on request to the Research Department, Federal Reserve Bank of Kansas City, Kansas City 6, Missouri.