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AGRICULTURE IN OUR

CAPITALISTIC ECONOMY

THE AGRICULTURAL sector of the American economy is highly competitive. In this environment, the economic conditions prevailing in agriculture have provided strong incentives for farmers to adopt the newer, more effective farm practices developed by agricultural experiment stations, the U. S. Department of Agriculture, and others. The result has been an extremely dynamic industry with a high degree of variability. The resource mix in the industry has been changing in such a manner that less labor and more capital are being used.

The rapid pace of the changes can be illustrated by the shifts that took place in the relative importance of the different kinds of farm inputs used from the early 1950's to the early 1960's. The U. S. Department of Agriculture estimates changes in the different major input groups for the last decade, measured in terms of per cent of total, to be:

Input Group	Early 1950's	Early 1960's
Farm labor	39	26
Real estate	14	15
Power and machinery	20	22
Feed, seed, and livestock	9	13
Fertilizer and lime	4	6
Other	14	18

These changes emphasize the rapidity with which farmers substituted other inputs for labor inputs.

Farmers also were quick to accept new techniques developed through research. Acceptance of innovation in the kinds of resources used and in the methods by which they were used enabled farmers to increase output per unit of man-labor at a much faster rate than

demand for farm products grew. With output per unit of man-labor in agriculture having increased roughly four times as rapidly as consumption of farm products, substantially less labor was needed to produce farm products in the early 1960's as compared with the early 1950's. Environmental and other factors frequently made it difficult for labor that had become surplus in agriculture to find acceptable alternative employment. Since farm labor was provided largely by the farmer and his family, unemployment did not prevail so long as the individual had a piece of land to farm. Underemployment in these conditions was high, however. Many underemployed farmers made an intensive effort to become more fully employed by using new techniques, increasing capital resources, and obtaining additional land. These efforts encouraged rapid shifts in the use of farm inputs and in the use of more capital by farmers. They also were instrumental in maintaining a high level of farm output, despite the severe price-cost squeeze in the industry.

The changes just described made American agriculture the most productive in the world, measured either in terms of output per man-hour or in terms of cost per unit of product. In fact, output per unit of man-labor increased at a substantially more rapid rate in agriculture than it did for the domestic economy as a whole during the period since World War II. The industry provided the Nation's consumers with abundant supplies of food and other raw materials at low prices. Despite these achievements, the industry continues to be confronted with severe adjustment problems.

Available data indicate a continued rapid rate of change and wide variability in output and income, capital requirements, and use of farm credit on farms. Since these problems have significant implications to all sectors of the economy, an effort will be made to show some of the changes since 1950 and point out the continuing wide variability.

OUTPUT

U. S. Department of Agriculture figures indicate that farm output has increased by a fourth since 1950, while the amount of labor used and total number of farms declined approximately two fifths. The only farms that increased in number during this period were those producing more than \$10,000 of farm products for sale annually.

Although total realized gross farm income trended upward from \$32.5 billion in 1950 to \$40.8 billion in 1962, aggregate realized net farm income in the early 1960's averaged less than in the early 1950's. The more rapid rate of increase in farm production expenses than in realized gross farm income accounts for this.

Realized gross income per farm in the United States increased more rapidly than did

aggregate gross income—rising from an average of \$5,751 in 1950 to \$11,061 in 1962—because of the decline in number of farmers. Average realized net farm income per farm increased from \$2,334 in 1950 to \$3,414 in 1962 as the smaller aggregate realized net farm income was divided among fewer farmers.

The most recent data that enable a cross-section analysis to be made which will show variability among farmers were collected in the 1960 Sample Survey of Agriculture. Survey data are estimates based on figures obtained for a sample of farms and, hence, are subject to sampling errors. A discussion of approximate measures of these sampling errors and general measures of the reliability of these estimates is given in *1960 Sample Survey of Agriculture, Special Reports* published by the Bureau of the Census, U. S. Department of Commerce. Data from the Sample Survey that are used in this article are statistically reliable at generally accepted levels.

Survey data were classified by economic class of farm on the basis of similar characteristics and size of operation. The farms were grouped into two major categories—commercial farms and “other” farms—on the basis of

Table 1
FARMS CLASSIFIED BY VALUE OF SALES BY OPERATORS, 1960
UNITED STATES

Economic Class	Number of Farms (thousands)	Per Cent of Total Number	Total Value of Farm Products Sold (thousands)	Per Cent of Total Value Sold	Average Value of Farm Products Sold Per Farm
Commercial Farms	2,265	69.6	\$ 29,164,445	96.7	\$ 12,882
I — \$40,000 and over	106	3.2	10,050,195	33.3	95,235
II — \$20,000-\$39,999	228	7.0	5,919,950	19.7	26,014
III — \$10,000-\$19,999	490	15.1	6,667,950	22.1	13,599
IV — \$5,000-\$9,999	591	18.2	4,188,364	13.9	7,090
V — \$2,500-\$4,999	543	16.7	1,913,975	6.3	3,528
VI — \$50-\$2,499	307	9.4	424,011	1.4	1,379
Other — VII-IX	988	30.4	982,445	3.3	994
Total	3,253	100.0	\$ 30,146,890	100.0	\$ 9,268

SOURCE: U. S. Department of Commerce, U. S. Census of Agriculture: 1959, 1960 Sample Survey of Agriculture, Special Reports.

total value of farm products sold. In general, all farms with a value of sales of \$2,500 or more were classified as commercial. Farms with sales of \$50 to \$2,499 were classified as commercial if the operator was under 65 years of age and either did not work off the farm 100 or more days during the year, or if his income and that of his family from nonfarm sources was less than the value of all products sold. The remaining farms with a value of sales of \$50-\$2,499 and institutional farms and Indian reservations were classified as "other."

The data in Table 1 indicate that operators of farms producing \$10,000 or more of farm products for sale in 1960 accounted for only 25 per cent of all operators but produced 75 per cent of the total value of farm product sales. The 3.2 per cent of operators producing \$40,000 or more of farm products for sale produced a third of all such items, while 40 per cent of all operators producing less than \$2,500 worth of products for sale accounted for only 5 per cent of the total.

Although a substantial proportion of the operators of "other" farms do not depend to a major extent on farming as a source of livelihood, many of this group do depend on farm income to supplement meager incomes from other sources. It should be pointed out also that 44 per cent of all farmers in 1960 were operating commercial farms with less than \$10,000 of sales, and a large proportion of these farmers were underemployed in terms of modern techniques. If cash operating expenses are deducted from value of farm products sold, the per farm average varied from \$22,411 for highest earning Class I farms to \$339 for the "other" farms category. The average remaining for Class VI farms—the smallest commercial farms — was \$781 per farm. These data confirm that families of a relatively large proportion of farm operators would have had a meager subsistence in 1960 unless their farm incomes had been supplemented by nonfarm sources.

CAPITAL REQUIREMENTS

According to the *Balance Sheet of Agriculture*, the total dollar value of assets used in the agricultural industry increased from \$130.8 billion in 1950 to \$207.3 billion in 1962—an increase of 58 per cent. Although higher real-estate prices accounted for a large proportion of the increase, substantial increases also occurred in livestock, machinery, crop, and household equipment investments.

Production expenses are another indicator of changing capital requirements. Total production expenses increased from \$19.3 billion in 1950 to \$28.2 billion in 1962—an increase of 46 per cent. Thus, despite the sharp decline in the amount of labor used and the number of farmers since 1950, total capital requirements of farmers have increased substantially.

The rapid rate of substitution of capital for labor and the resulting increase in size of farm have caused an even more rapid increase in capital requirements per farm than in the aggregate. In 1950, the average value per farm of assets used in production for the Nation was computed at \$17,193. By 1962, the figure was set at \$47,632—an increase of 177 per cent in 12 years. If production expenses are used as the indicator, the per farm average changed from an estimated \$3,417 in 1950 to \$7,647 in 1962—an increase of 124 per cent.

Although exactly comparable data are not available for measuring variability in capital requirements as of 1960, the Sample Survey does give estimates by economic class of farm for value of land and buildings operated and total cash operating expenses of farm operators.

Operators of Class I farms handled an estimated 22 per cent of the aggregate investment in farm land and buildings. The average value of land and buildings operated on these farms was \$266,959. Average value per operator for commercial farms tended to decline sharply with declining size of farm, as measured by

Table 2
ESTIMATED VALUE OF LAND AND BUILDINGS OPERATED
UNITED STATES

Economic Class	Per Cent of All Farms	Total Value of Land and Buildings (millions)	Per Cent of Total Value	Average Per Farm Value of Land and Buildings Operated
Commercial Farms	69.6	\$ 113,859	88.2	\$ 50,365
I — \$40,000 and over	3.2	28,047	21.7	266,959
II — \$20,000-\$39,999	7.0	23,164	18.0	101,756
III — \$10,000-\$19,999	15.1	27,936	21.6	56,980
IV — \$5,000-\$9,999	18.2	20,824	16.1	35,308
V — \$2,500-\$4,999	16.7	11,105	8.6	20,519
VI — \$50-\$2,499	9.4	2,783	2.2	9,074
Other—VII-IX	30.4	15,212	11.8	15,426
Total	100.0	\$ 129,071	100.0	\$ 39,753

SOURCE: U. S. Department of Commerce, U. S. Census of Agriculture: 1959, 1960 Sample Survey of Agriculture, Special Reports.

economic class, and was only \$9,074 for operators of Class VI farms — the smallest commercial farm. The proportion of the total value of land and buildings operated by farmers on the three classes of farms with sales of \$10,000 and over was about the same for each class, since increasing numbers in each class about offset the influence of declining average size of investment as size of farm declined.

For the three smallest commercial classes, the proportion of total investment operated fell sharply with declining size of farm.

Value of land and buildings operated by the "other" economic classes tended to be relatively high in relation to value of products sold and the proportion of cash operating expenses used by this group. This is to be expected, since these farms, by definition, are either part-

Table 3
ESTIMATED CASH OPERATING EXPENSES OF FARM OPERATORS
UNITED STATES

Economic Class	Per Cent of All Farms	Total Cash Operating Expenses (thousands)	Per Cent of Total Cash Operating Expenses	Average Per Farm Cash Operating Expenses
Commercial Farms	69.6	\$ 18,370,409	96.6	\$ 8,114
I — \$40,000 and over	3.2	7,685,146	40.4	72,824
II — \$20,000-\$39,999	7.0	3,573,237	18.8	15,702
III — \$10,000-\$19,999	15.1	3,719,623	19.6	7,586
IV — \$5,000-\$9,999	18.2	2,247,407	11.8	3,804
V — \$2,500-\$4,999	16.7	960,935	5.0	1,772
VI — \$50-\$2,499	9.4	184,061	1.0	599
Other—VII-IX	30.4	647,123	3.4	655
Total	100.0	\$ 19,017,532	100.0	\$ 5,847

SOURCE: U. S. Department of Commerce, U. S. Census of Agriculture: 1959, 1960 Sample Survey of Agriculture, Special Reports.

time, part-retirement, or abnormal—farms on which the value of residential property is likely to be high in relation to actual farming operations.

Estimates on cash operating expenses also indicate wide variability among operators in the amount of capital used. Operators of the largest farms, which accounted for only 3.2 per cent of all operators, spent 40 per cent of all cash operating expenses for the entire agricultural industry. The estimated average per operator for these operators was \$72,824. Both total cash operating expenses and the average per operator showed a strong tendency to diminish with declining size of farm. Although 9.4 per cent of all farm operators were on the smallest commercial class of farm, they spent only 1 per cent of all cash operating expenses, or an average of \$599 per farm.

These estimates show that the 25 per cent of operators of farms with a sales value of \$10,000 or more per farm spent 79 per cent of the cash operating expenses for the entire agricultural industry. The other 75 per cent spent only 21 per cent of the cash operating expenses used in the industry in 1960. Thus, the available data on both the value of the land and building investment operated and cash operating expenses indicate wide variability in capital requirements among farms in the United States.

USE OF FARM CREDIT

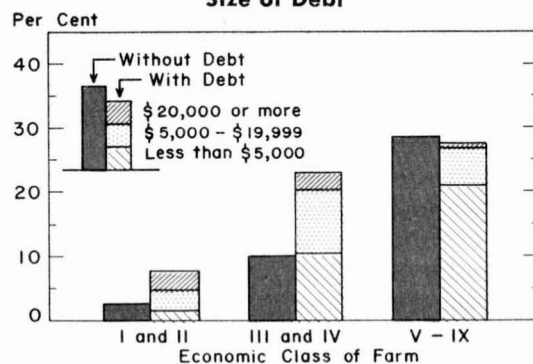
Rapidly changing capital requirements in agriculture were reflected in the use of credit by the industry. In 1950, farmers in the United States had an estimated \$12.5 billion worth of credit outstanding at the beginning of the year. It was estimated that farmers had \$27.6 billion worth of credit outstanding at the beginning of 1962. These data indicate that farmers increased their use of credit, in the aggregate, by 121 per cent from 1950 to 1962. Because of the declining number of farmers, the per cent increase in dollar volume of credit outstanding

per farm would be roughly twice that for the industry as a whole.

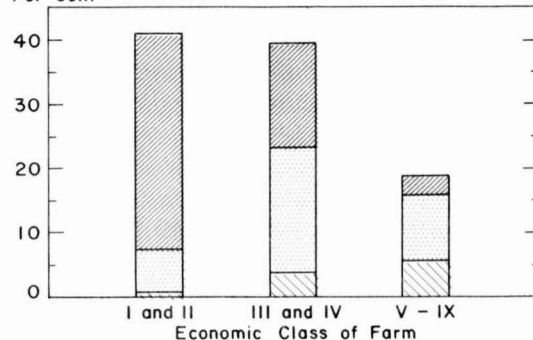
The 1960 Sample Survey indicated that there is considerable concentration in the use of credit by farmers. At the time of the Survey, it was estimated that 58 per cent of all farm operators were indebted and had a total outstanding debt of \$16.8 billion. Farm landlords had an additional outstanding farm debt estimated at \$3.1 billion.

Because of the limited size of the sample and the desire to avoid undue risk of large sampling errors in estimates for small groupings, it was necessary to combine economic classes when different cross classifications were made. The combinations made were Class I and II, Class III and IV, and Class V-IX. Operators of

DISTRIBUTION OF FARM OPERATOR DEBT By Number of Operators and Average Size of Debt



By Dollar Volume and Average Size of Debt



SOURCE: U. S. Department of Commerce, U. S. Census of Agriculture: 1959, 1960 Sample Survey of Agriculture.

Class I and II farms accounted for 10 per cent of all operators—three fourths of whom were indebted—produced 53 per cent of all farm products, and held 41 per cent of the total outstanding debt. Operators of Class III and IV farms accounted for 33 per cent of all operators—70 per cent of whom were indebted—produced 36 per cent of the farm products and held 40 per cent of the total outstanding debt. Operators of the small farms, Classes V-IX, accounted for 57 per cent of all operators, produced 11 per cent of the farm products and held 19 per cent of the total outstanding debt. Slightly less than half of these operators of small farms had outstanding debt at the time of the Sample Survey.

The dollar volume of farm operator debt outstanding also was heavily concentrated by average size of debt. Six per cent of the farm operators with an average outstanding debt of \$20,000 or more held 53.2 per cent of the total outstanding debt. An additional 19 per cent of the operators with an average debt of \$5,000-\$19,999 held 36.4 per cent of the outstanding debt. Thus, 25 per cent of the farm operators held 90 per cent of the outstanding farm operator debt at the time the Sample Survey was taken in 1960. The remaining 75 per cent who were either debt-free or had an average debt of less than \$5,000 held only 10 per cent of the outstanding operator debt.

SUMMARY AND CONCLUSIONS

Farmers in the United States accepted innovation and increased their use of capital at a rapid pace during the past quarter of a century. Available evidence indicates that these changes continued unabated in the past decade. The pace of these changes undoubtedly was influenced by the competitive nature of the agricultural industry in this capitalistic society.

The severe price-cost squeeze was a strong inducement for farm operators to employ all devices in their efforts to increase efficiency and maintain profits.

The result has been a substantial change in the resource base of the agricultural industry. Capital has become a much more important resource, while the amount of labor needed has declined sharply. These changes have had a significant impact on many phases of economic activity. Underemployed farmers have become much more interested in labor markets. Individuals in urban areas have followed farm developments more closely. Urban markets—particularly those in dominantly rural areas—have been influenced. Underemployed farm labor has become competitive in some nonfarm labor markets. These changes have had a particular impact on institutions and individuals engaged in the farm finance sector. Substantially fewer farmers are using more total credit today as compared with a decade or two ago. Furthermore, the kinds of financing needed by farmers today are significantly different from those needed in the past.

Census data that enable a cross-section analysis of the agricultural industry to be made as of 1960 indicate a continued wide degree of variability among farms. Much of this variability suggests that the same forces that have been operative during the past decade are likely to continue for some time in the future. To the extent that these forces continue to operate, the agricultural sector of the economy is likely to remain relatively dynamic. Such developments are likely to cause a continuation of the adjustment problems that have faced the agricultural industry. However, they also will help the Nation's farm industry to maintain its position as the most efficient and productive agricultural plant in the world.

The Payments Plight --

Trade Aspects

PERFORMANCE of the trade sector during the postwar period has been a continuous source of strength to the over-all U. S. balance-of-payments position. Nevertheless, in 12 of the past 13 years, this trade strength has not been sufficient to overcome the shortfalls resulting from transactions on other balance-of-payments accounts. The combined weight of U. S. military expenditures abroad, private and public gifts, and sizable capital outflows has more than offset the excess earnings on the trade account as well as from other sources of receipts. A series of deficits on the over-all U. S. balance of payments—of considerable magnitude since 1958—has resulted and has been manifested in the loss of gold by the United States and by the accumulation of other short-term and liquid liabilities in the hands of foreigners. This is the essence of the U. S. payments situation and two alternative approaches have been suggested for its amelioration.

One alternative is to view the problem as a shortfall in receipts. Consequently, any action on the part of the United States tending to increase the level of receipts would aid in restoring equilibrium in the balance of payments. On the other hand, an excessive level of U. S. expenditures abroad also may be regarded as the source of the U. S. payments difficulties. Thus, it can also be argued that a solution to the deficit dilemma may be found in a retrenchment in the scale of U. S. foreign spending activities, both public and private.

It remains to be seen, however, which course of action, or combination of actions, can reasonably be expected to bear fruit in the near future. This article examines both approaches, with the major emphasis on the role of the

trade sector in easing the balance-of-payments pressure on the United States.

A NEAR-TERM VIEW OF ALTERNATIVES

Of the two approaches to the U. S. payments dilemma—increasing receipts or reducing expenditures—the latter will be considered first. Expenditures for imports of goods and services, interest and dividend payments to foreign investors, and military outlays to maintain U. S. troops abroad are generally accounted for in the category called Current Account—one of several major accounts which comprise the balance of payments.

In addition to cyclical changes in over-all demand, imports of goods depend to a large extent on such factors as relative price, quality, and availability. There is little reason to suppose that the United States is prepared to invoke substantially greater direct controls on imported goods in order to slow down their entry into the United States. The recent passage of the Trade Expansion Act is indicative of the desire on the part of the United States to liberalize foreign trade. In addition, the realization that efforts to restrict imports invariably call forth retaliation, seems to warrant the observation that increased trade restrictions by the United States are unlikely in the near future. However, the effects of rising prices and costs abroad relative to the United States, as well as pressure on foreign capacity which will stretch out delivery times, may bring about some relative decline in the level of U. S. imports. These market forces do not operate with dramatic suddenness, but are operative over longer periods of time and, as a consequence, they cannot be relied on to

diminish U. S. imports rapidly in the near future. Five years of relative price stability in the United States, however, has narrowed the gap between domestic and foreign prices. Although merchandise imports have not declined in absolute terms relative to earlier levels, in recent years they have risen more slowly than the gross national product. Thus, one of the consequences of U. S. price stability has been to mitigate any deterioration of the U. S. competitive position in the face of cyclical developments which favored substantially higher levels of imports. In the future, it may be noted, those same market forces which have raised the prices of foreign goods may temporarily be circumvented to some extent by foreign controls designed to dampen inflationary pressures abroad. Recent anti-inflationary actions taken by the French government illustrate this.

Changes in the services component of Current Account are influenced by the vast gulf between incomes, and prices for most personal services here and abroad. This disparity, coupled with the continuing upward trend of foreign travel by Americans, seems to point toward increased U. S. tourist outlays abroad. In the case of transport services, the picture is somewhat mixed. U. S. international air carriers have demonstrated an increasingly aggressive competitive conduct. This is reflected in their recent efforts to secure rate reductions for both passenger and freight movements. On the other hand, cost disparities between foreign and U. S. merchant marine services indicate that the United States is under a sizable competitive handicap in the ocean carriage of foreign trade.

Military outlays to maintain U. S. troops abroad account for a sizable net drain on the balance of payments, yet these commitments are not primarily a function of economics, but are dependent on national security considerations. The United States is attempting to curtail these expenditures through the redeployment of troops from overseas to the continental United States, as well as by eliminating

certain overseas facilities no longer regarded as strategically necessary in light of recent developments in the U. S. military transport capabilities. Despite these efforts, as well as increased efforts on the part of the U. S. allies to undertake a larger financial responsibility for their own defense, assuming that international tensions remain high, such outlays may still be expected to continue at relatively high levels in the near future.

Income earned by foreigners on investments in the United States is quite small relative to the volume of interest and dividend returns to Americans as a result of U. S. investments overseas. Because of the small magnitude of this income, any diminution in it would afford little improvement in the over-all U. S. balance of payments. As a matter of fact, increased efforts are being made to attract foreign investors, which would have a favorable effect on the U. S. deficit now even though it would result in a higher future level of interest and dividend payments to foreigners.

The Unilateral Account, excluding military grant-aid, has remained remarkably stable since 1952. This account—which includes private and public gifts—has averaged approximately \$2.4 billion a year, and has moved within a relatively narrow range of plus or minus \$150-\$200 million. To the extent that some of the grants or gifts enable foreigners to purchase U. S. goods, or if such grants by the Government are tied partly to U. S. procurement, a diminution in this account would result in a lower level of U. S. exports. In this connection, it is interesting to note that since 1960 the volume of tied aid has risen in each successive year. A decrease in the level of Unilateral Transfers, therefore, would not necessarily result in an equivalent improvement in the over-all U. S. balance of payments. Considerations governing these outlays for the most part have been political, diplomatic, and humane, rather than economic. Assuming that such considerations will continue to underlie these expenditures, their future behavior will

be largely independent of changing cost-price relationships here and abroad.

Private and U. S. Government capital outflows are recorded in the Capital Account. These movements include both short- and long-term outflows and may take several forms in response to different motives. U. S. Government nonmilitary capital outlays are made in most instances on a long-term basis and are essentially for developmental reasons. Private capital movements, on the other hand, include short- and long-term flows and are associated with the normal profitseeking motives on the part of the investors. Short-term interest rate differentials between the United States and abroad, as well as the expectation of higher rates of return on invested capital than may be earned in the United States, provide stimulus for the short- and long-term U. S. capital outflows. While short-term outflows involve the building up of dollar balances held abroad by Americans or an increase in similar balances held in the United States by foreigners, long-term movements take other forms. They may be either "portfolio" investments—the purchase of foreign stocks or bonds—or "direct" investment in actual physical plant and equipment abroad or in the acquisition of a controlling interest in a foreign corporation.

Although all capital outflows have an immediately unfavorable impact on the U. S. balance-of-payments position, there are other dimensions to them which should also be considered. These considerations revolve around the subsequent beneficial effects of capital movements on U. S. international receipts, and open the door for a discussion of the role of receipts in the balance-of-payments problem.

While it has been noted that capital outflows exert an adverse effect upon the U. S. payments position, it is also true that part of the funds which flow abroad help to provide a share of the purchasing power needed to enable foreigners to acquire U. S. goods which might otherwise have gone unsold. In addition, direct U. S. investments abroad have cer-

tain salutary effects such as an increase in the demand for U. S. capital equipment and materials for foreign subsidiaries. Similarly, both direct and portfolio investments abroad involve future reverse flows of interest and dividend payments to Americans. Here it may be noted that an important source of receipts for the United States has been from such investments made in earlier periods. The level of U. S. investment income has exceeded the annual volume of U. S. long-term capital outflows in recent years and it is reasonable to expect future gains even if U. S. capital outlays remain constant. Although future U. S. receipts would be further enhanced by an increase in the current level of U. S. capital exports, many regard such outflows with serious concern.¹ Thus, any appraisal of the impact of capital outflows on the over-all U. S. balance-of-payments position involves balancing the immediate costs against the attendant future benefits.

To pursue the receipts approach further, it is necessary to consider elements of the balance of payments other than the Capital Account. In this connection, some of the comments made in earlier sections have touched upon considerations which are pertinent here—as for example, the former observations relative to foreign tourism and to shipping. Assuming that the present international defense posture remains essentially the same, a decline in U. S. military outlays abroad may not necessarily involve the over-all assumption of these defense requirements by foreign governments and thereby, perhaps, increased military purchases in the United States. The recent airlift of some 16,000 U. S. combat troops to Europe was apparently a test to determine whether the United States can redeploy troops in the United States

¹The proposed interest equalization tax on U. S. purchases of foreign securities is designed to discourage, or at least to diminish to some extent, capital outflows from the United States. Similarly, upward pressure by the monetary authorities on short-term interest rates has been pursued as a means of stemming the tide of capital outflows.

without at the same time imposing unduly higher defense burdens on its allies. Although such a change would definitely reduce the net U. S. outflow on this account, its impact in terms of increased U. S. receipts is uncertain.

The preceding remarks serve to outline briefly some of the significant factors influencing several major items in the U. S. international payments account, as well as to provide a quick overview of the current status of those accounts. Of all the various international economic transactions, however, merchandise exports account for the largest dollar volume and, as a consequence, exert the greatest leverage effect on the over-all payments balance. The remainder of the article deals with this all-important sector, attempts to show some of the changes which have taken place in it during the postwar period, and also gives some attention to factors involved in increasing the volume of U. S. exports.

THE COMPETITIVE PICTURE

A consequence of recent U. S. balance-of-payments difficulties has been a rather critical reappraisal of the competitive strength of the United States. While opinions have varied in degree, they have stressed a decline in the ability of the United States to compete successfully in world markets. The postwar decline in the U.S. share of total world exports, as well as slippage in the share of specific classes of export commodities, has been cited by many as evidence of competitive deterioration. Yet, during this same period, the United States has recorded continuous, and for the most part substantial, favorable balances on its trade account—a performance which tends to result in some confusion among those attempting to make a substantive assessment of the U. S. competitive strength.

In an absolute sense, it would be extremely difficult to argue that the United States is at present, or has been in the past, characterized by competitive weakness. Table 1 shows the net U. S. position on balance of trade during

the entire postwar period. The export surplus as a per cent of total U. S. exports—the “export ratio”—gives some indication of the latitude which the trade sector allows with respect to undertaking new international financial obligations or meeting existing ones. Although cyclical factors, as well as others, can influence the over-all trade balance, as well as the export ratio, it still can serve as a useful first approximation of a country’s ability to compete successfully in international markets.

The years 1946 through 1949 were marked by an extreme export ratio of more than 50 per cent—due largely to the wartime destruction of both Japanese and Western European productive capabilities. It declined by nearly four fifths during 1950. For the entire decade subsequent to 1950, this ratio averaged approximately 18.4 per cent, with the years 1956 and 1957 characterized by well above average marks as a consequence of a surge in European investment activities in 1956 and the Suez episode which bolstered export figures for 1957. The smallest export ratio of the entire postwar period—in 1959—was due to a large cyclical rise in imports of nearly one fifth while exports remained essentially unchanged.

Table 1
NET U. S. FOREIGN TRADE POSITION*

Year	Merchandise Exports	Merchandise Imports	Excess of Exports over Imports	Export Surplus as Per Cent of Total U. S. Exports
	(Millions of dollars)			
1938	\$ 3,094	\$ 1,960	\$ 1,134	36.7
1946-49 Average	12,556	6,126	6,430	51.2
1950	9,993	8,874	1,119	11.2
1951	13,967	10,998	2,969	21.3
1952	13,204	10,753	2,451	18.6
1953	12,263	10,914	1,349	11.0
1954	12,855	10,292	2,563	19.9
1955	14,294	11,491	2,803	19.6
1956	17,338	12,774	4,564	26.3
1957	19,507	13,255	6,252	32.1
1958	16,373	13,255	3,118	19.0
1959	16,406	15,627	779	4.7
1960	19,609	15,017	4,592	23.4
1961	20,152	14,713	5,439	27.0
1962	20,901	16,396	4,505	21.6

* Based on exports including reexports and general imports. Data for exports exclude military grant-aid for 1950 and subsequent years.

SOURCE: U. S. Department of Commerce.

During the past 3 years, this ratio averaged 24 per cent—fully a third higher than for the preceding decade, although it showed considerable variation—and a string of positive balances on the trade account were recorded which were exceeded only during 1956 and 1957 in the preceding 10 years. On balance then, any doubts concerning the over-all U. S. competitive strength must be conditional.

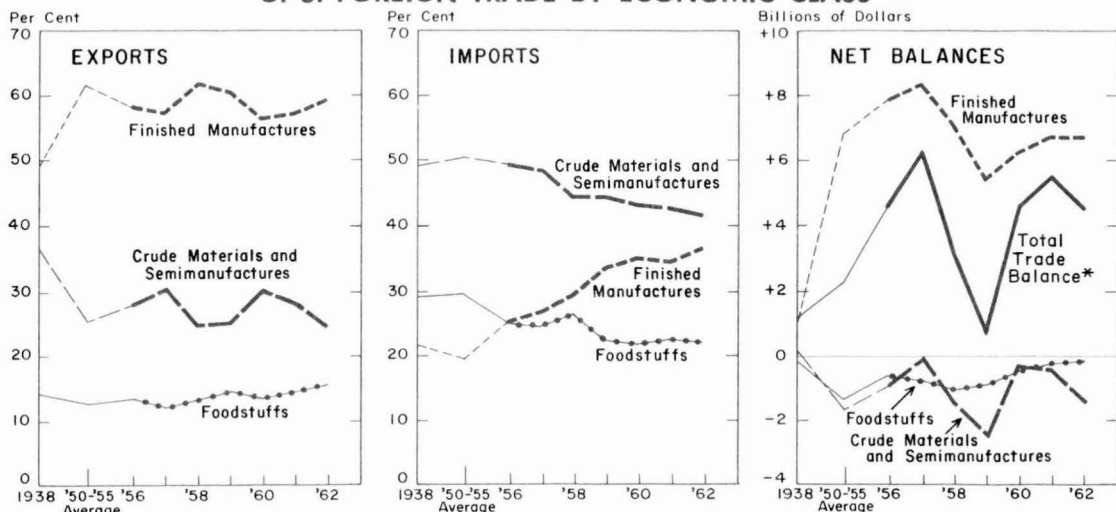
In spite of the apparent strength of the United States in world markets, as evidenced by the sizable and favorable trade balances during the postwar period, there is still reason for legitimate concern with the awareness that the level of U. S. international financial commitments could more adequately be accommodated by a still greater competitive performance by U. S. industry. Because a gain in receipts from the trade sector may help to alleviate some of the payments pressures the United States has been subjected to, the competitive ability of the United States bears heavily on the entire balance-of-payments picture. In this connection, the accompanying chart traces the shifts in the composition of U. S. exports and imports by broad economic class during much of the postwar period and provides some evidence

to affirm a relative decline in the U. S. competitive position.

In looking at the composition of U. S. exports, the dominant position of finished manufactures is readily apparent and demonstrates a remarkable stability in the over-all export picture—accounting for approximately 60 per cent or more of total receipts throughout the entire period. Equally impressive has been the relative stability of crude materials and semimanufactures, and foodstuffs during this same period, although in the case of foodstuffs a slight rising trend is perceptible. From this, it might be concluded that the United States has managed to maintain the same degree of comparative advantage in these various commodity lines and consequently has suffered no competitive deterioration in their production.

On the import side, however, strong evidence indicates that the United States has undergone some erosion in its competitive position. While imports of crude materials and semimanufactures, and foodstuffs have shown a slight downward trend in the past 13 years, the important finished manufactures group shows a substantial rise—nearly doubling when taken as a percentage of total imports, and almost trebling

U. S. FOREIGN TRADE BY ECONOMIC CLASS



* Based on exports including reexports and general imports. Data for exports exclude military grant-aid for 1950 and subsequent years. SOURCES: Data for 1938 only from *Historical Statistics*; data for 1950 through 1962 from U. S. Department of Commerce, *Overseas Business Reports*.

in terms of the dollar volume of imports. Although it is logical to assume that a portion of this rise in imports of finished manufactures is purely the result of a rising level of national income in the United States, it should be recognized that this is also a reflection of increasingly aggressive worldwide competition in product lines which have been regarded here as exclusively American.

Table 2 shows how the U. S. position in manufacturing exports has shifted in recent years—with the most pronounced weakening occurring since 1958. The performance of the United Kingdom closely parallels that of the United States, while France, with few exceptions, shows little change in its share of world manufacturing exports. On the other hand, West Germany, Italy, and Japan have made strong inroads into world markets in the last decade. It would be erroneous to conclude, however, that this turn of events was altogether a manifestation of an inherent competitive deterioration by the United States. Many diverse factors—including some over which the United States had no control—were operative during this period. Part of the decline in the U. S. share of manufacturing exports was simply the result of a relative decline in the total level of goods imported by Latin America and Canada

—markets which had accounted for upwards of 40 per cent of all U. S. exports prior to 1960. Moreover, the U. S. proportion of all imports taken by these areas also has fallen. In addition, the phenomenal growth of industrial capacity—especially in Western Europe and Japan, and largely related to the rebuilding of war-damaged plant—created export potential which had heretofore been largely nonexistent and significantly shortened the technological lead the United States formerly enjoyed in many sophisticated product lines. A gain in intra-European trade as a consequence of the formation of the Common Market and the European Free Trade Association may also have served to dampen U. S. export opportunities in these markets.

It would be equally erroneous, however, to conclude that pure price considerations—indicative of an actual weakening in the fundamental competitive posture of the United States—were not at least responsible in part for the relative U. S. decline in world markets. In this connection, it is quite significant to note that numerous studies on this subject appear to corroborate the view that relative price movements and changes in export shares positions are closely correlated. Substantial gains in the export of manufactures made by Japan, West Germany, and Italy can be closely associated with favorable unit cost developments occasioned by rapid productivity gains in these countries. In sharp contrast are the losses suffered by the United States and the United Kingdom which may be related to perceptibly higher unit costs as a result of much slower productivity growth during much of the 1950's.

THE OUTLOOK

If the United States had not voluntarily assumed a tremendous burden of international obligations during the postwar period, the issue of competitiveness and its payments implications might currently be of far less consequence. The economic resurgence in Western Europe and Japan would have represented simply a ration-

Table 2
**SHARES OF LEADING INDUSTRIAL COUNTRIES
IN WORLD EXPORTS OF MANUFACTURES, 1953-62***
AS A PER CENT OF TOTAL

Year	United States**	United Kingdom	West Germany	France	Italy	Japan	Six Other Countries†
1953	26.2	20.9	13.4	9.1	3.3	3.8	23.4
1954	25.3	20.0	14.9	9.1	3.2	4.7	22.8
1955	24.7	19.3	15.6	9.4	3.4	5.2	22.6
1956	25.4	18.7	16.5	7.9	3.6	5.7	22.2
1957	25.5	17.8	17.6	8.0	3.8	6.0	21.2
1958	23.4	17.7	18.6	8.7	4.1	6.0	21.5
1959	21.3	17.3	19.2	9.2	4.4	6.7	21.9
1960	21.7	15.9	19.4	9.7	5.2	6.9	21.2
1961	20.6	15.8	20.4	9.5	5.7	6.9	21.2
1962	19.9	15.2	20.1	9.2	6.1	7.5	22.0

* The total on which the percentages are calculated consists only of exports of manufactures—Standard Industrial Trade Classifications (SITC) Sections 5-8—from the countries included in the table, which account for about 90 per cent of world exports of manufactures. Armaments are excluded.

** The U. S. figures and the world total exclude U. S. special category exports throughout.

† Belgium, Luxembourg, Canada, Netherlands, Sweden, and Switzerland.

SOURCE: The Brookings Institution, Washington, D. C.: *The United States Balance of Payments in 1968*, p. 65.

alization of world trade toward a more normal pattern, rather than a cause of some anxiety on the part of the United States—one end product of which is the somewhat paradoxical conclusion that the United States is “strong,” but not “strong enough.” In light of these events, however, and the subsequent deterioration in the U. S. balance-of-payments position, questions of trade and competitive strength have assumed a position of primacy, and quite logically so in view of the importance of the trade sector in the over-all balance-of-payments scheme.

The past must be drawn upon in attempting to assess the future course of events in the trade sector. While wage and productivity developments on the Continent and in Japan during the 1953-58 period favored foreign producers of manufactured goods, relative U. S. wage stability and impressive productivity growth since 1959 appear to have operated in favor of the United States, thereby narrowing the relative U. S. price disadvantage in export markets. Although gains from these developments have for the most part been in the form of maintaining the U. S. competitive position, the situation does augur well for possible future improvement. Similarly, continued high levels of economic growth, both in Europe and Japan, imply some increase in the level of U. S. exports to those areas merely as a result of their rising levels of national income. In the case of the Continent, however, any optimism must be tempered by an awareness that the further lowering of barriers to intra-European trade may result in some additional degree of trade diversion which would tend to limit any potential U. S. gain in the export of manufactured goods. Although the results of the forthcoming tariff negotiations are indeterminate at this time, the aforementioned consideration, along with the realization that an increasingly restrictive agricultural policy on the part of the European Common Market must adversely affect the future market for U. S. farm products, suggests that sizable gains in U. S. exports to Western Europe will not be won easily.

The prospects for future assistance to the United States through substantially expanded trade with Canada, Latin America, and Africa are somewhat dubious. Even if these areas were capable of absorbing a sufficient volume of added U. S. exports to have a favorable net impact on the U. S. balance-of-payments position, one of the conditions necessary for an expanded volume of trade is the existence of adequate international reserves to accommodate the increase. An examination of the international financial scene suggests not only that these three areas in question are in a poor position to finance a greatly increased volume of trade with the United States but, additionally, that Western Europe alone appears to have the wherewithal to do so. Ironically, it is in this same area that prospects for substantially increased U. S. trade face their strongest challenge. Sizable U. S. export gains to Canada, Latin America, and Africa may only be accomplished as these countries acquire the necessary financing through increased exports on their part, or by means of capital imports. To the extent that the United States is the source of these funds, however, the net gain on the U. S. balance of payments from increased exports to these areas is thereby reduced.

There is every reason to be gratified at the renewed interest which the Administration and the public-at-large are taking in the promotion of U. S. export activities. Certainly, any gains in the trade sector will be of assistance in compensating for the short-falls in the other balance-of-payments accounts. However, the evidence presented suggests that the outlook for any substantial improvement in the U. S. payments position through the medium of increased trade in the near future is not assured. In the final analysis, it does not appear as though the trade sector alone will provide the panacea for the U. S. payments quandary. For the future then, continuous pressure and an imaginative and resourceful attack on many fronts—including trade—will apparently be required to resolve the payments plight.

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	
	Aug. 1963 Percentage Change From								July 1963 Percentage Change From							
	July 1963	Aug. 1962	July 1963	Aug. 1962	July 1963	Aug. 1962	July 1963	Aug. 1962	June 1963	July 1962	June 1963	July 1962	June 1963	July 1962	June 1963	July 1962
Tenth F. R. Dist.	†	+9	-1	+12	-2	+3	-1	+6	+1	+9	†	+13	-2	+4	+1	+7
Colorado	-1	+10	+1	+18	-2	+2	+2	+10	+1	+13	†	+16	+1	+7	†	+11
Kansas	**	**	-2	+5	**	**	-2	+3	**	**	-2	+7	**	**	+1	+4
Missouri*	-1	†	†	+14	-3	-1	-1	+4	-1	†	+3	+12	-3	+1	+1	+6
Nebraska	-1	+13	-1	+16	†	+1	†	+4	+1	+15	-1	+13	+1	+1	+3	+5
New Mexico*	**	**	-3	+9	**	**	-2	+6	**	**	+2	+16	**	**	+2	+9
Oklahoma*	+1	+16	-4	+17	†	+8	-2	+7	+1	+13	+3	+18	-4	+5	-2	+9
Wyoming	**	**	+1	+14	**	**	+1	+8	**	**	+1	+13	**	**	+2	+7

*Tenth District portion only.

**No reserve cities in this state.

†Less than 0.5 per cent.

PRICE INDEXES, UNITED STATES

Index	Aug. 1963	July 1963	June 1963	Aug. 1962	July 1962
Consumer Price Index (1957-59=100).....	107.1	107.1	106.6	105.5	105.5
Wholesale Price Index (1957-59=100).....	100.4	100.6r	100.3	100.5	100.4
Prices Received by Farmers (1910-14=100)....	242	245	241	244	240
Prices Paid by Farmers (1910-14=100).....	311	312	311	305	305

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments			Value of Department Store Sales		
	Percentage change from previous year					
	Aug. 1963	July 1963	Eight Months 1963	Aug. 1963	July 1963	Eight Months 1963
Tenth Federal Reserve District.....	0	+10	+3	+8	+8	+5
Denver.....	-5	+16	+4	+13	+12	+6
Wichita.....	+4	+8	0	+4	+6	+1
Kansas City.....	+2	+12	+4	+7	+11	+7
Omaha.....	-6	+7	+3	+9	+6	+4
Oklahoma City.....	+6	+12	+8	+5	+6	+4
Tulsa.....	-6	+1	-4	+2	+3	+5