May 1964

FEDERAL RESERVE BANK OF ST. LOUIS

Review

CONTENTS

Page

Further Expansion in Economic Activity 1

Farm Commodity Exports and International Trade Policies 6

Volume 46 • Number 5

FEDERAL RESERVE BANK OF ST. LOUIS

P.O. Box 442, St. Louis, Mo. 63166

Further Expansion in Economic Activity

THE TEMPO OF BUSINESS ACTIVITY continued to quicken in the first four months of 1964. The nation's money supply, which has risen at a 4 per cent annual rate since the fall of 1962, has continued to increase markedly thus far this year. Interest rates have shown little net change in 1964, whereas before 1961 there characteristically was a decline in rates from December to early May.

Business Developments

Spending on currently produced goods and services reached an estimated $608.5 billion annual rate in the first quarter of this year. These expenditures, frequently referred to as gross national product, were $8.4 billion (annual rate) higher than in the final quarter of 1963. Increases from the fourth quarter were primarily in personal consumption expenditures, especially for nondurable goods (see Table I, next page). There is some possibility that consumer spending was spurred by anticipation and realization of the tax cut. Investment spending declined moderately as businesses trimmed inven-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tories, while outlays on plant and equipment were virtually unchanged. On the other hand, expenditures on new construction rose slightly. Government spending in the first quarter rose at a lesser rate than has characterized the recent past. The increase in GNP from the fourth quarter of last year to the first quarter of this year, at an annual rate of 5.6 per cent, was somewhat less than the 7.8 and 6.3 per cent rates of the two preceding quarters.

Table I

CHANGES IN GNP BY SELECTED COMPONENTS

Changes shown as a per cent of total GNP of previous quarter

	4th Qtr. 1963 to 1st Qtr. 1964	3rd Qtr. 1963 to 4th Qtr. 1963	2nd Qtr. 1963 to 3rd Qtr. 1963	1st. Qtr. 1963 to 2nd. Qtr. 1963
Personal Cons. Exp.	**1.3**	**0.8**	**0.8**	**0.5**
Durables	0.3	0.4	0.0	0.1
Nondurables	0.6	0.0	0.5	0.1
Services	0.4	0.4	0.3	0.4
Investment	**—0.3**	**0.6**	**0.5**	**0.5**
New Construction	0.1	0.2	0.4	0.4
Producers Durable Equipment	0.0	0.2	0.1	0.3
Change in Business Inventories	—0.4	0.2	0.0	—0.1
Net Exports	**0.2**	**0.2**	**—0.1**	**0.2**
Gov't. Purchases	**0.2**	**0.3**	**0.3**	**0.1**
Total GNP*	**1.4**	**1.9**	**1.6**	**1.4**

* Components may not add due to rounding.

For some purposes it is of interest to review changes in so-called "final demand"–i.e., total expenditures on goods and services whether *currently produced or from inventories.* Viewed in this manner, the increase from the fourth to the first quarter was greater than the increases during other recent quarters. Final sales rose at a 7.2 per cent rate from the fourth quarter of 1963 to the first quarter of this year. This may be compared with increases of 7.0 per cent and 6.3 per cent in the two previous quarters.

Sales in April appear to have remained near the March level. Weekly retail sales averaged about 1 per cent above year-earlier levels even though sales in April of last year were inflated by Easter buying. Automobile sales increased about seasonally from March to April, averaging about 7½ million units (seasonally adjusted annual rate), slightly above the comparable period in 1963.

The index of industrial production, a measure of a major portion of the nation's industrial output, reached 128.2 in March (1957-59 = 100) and, according to fragmentary data, rose further in April. Since the end of last year, output has risen at a 4.1 per cent annual rate compared with an average rate of increase of 3.7 per cent since 1957. During the December-March periods of 1963 and 1962, output rose at rates of 7.4 and 5.9 per cent, respectively. In these earlier periods, threats of work stoppages in the steel industry served to spur inventory demand for steel.

Employment in April totaled 70.6 million workers, up 1.4 million or at an annual rate of 6 per cent since December of last year. From April 1963 to December, employment had increased at an annual rate of less than 1 per cent; since 1957 the average rate of increase in employment has been 1.2 per cent. The average workweek in manufacturing has lengthened since December.

The unemployment rate was 5.4 per cent in April, the same as in February and March. This is the first time in recent years that the unemployment rate has remained so low for three consecutive months. In the comparable period a year earlier the rate averaged 5.8

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

per cent. From February 1962 to January this year the unemployment rate appears to have been on a plateau, averaging 5.6 per cent of the labor force. The unemployment rate among adult males was 3.8 per cent in April compared with 4.4 per cent one year earlier.

Consumer prices have remained unchanged on balance thus far in 1964. The consumer price index in March was unchanged from January and 1.4 per cent higher than a year earlier, with commodity prices up 1.1 per cent and services up 3.3 per cent.

Wholesale prices continued stable in April with the index at 100.3 (1957-59=100), about unchanged from one, two, three, four, and five years earlier. While overall prices have remained stable, increases have become widespread among metals. The BLS daily average of 12 industrial commodities rose 3.2 per cent from March to the week ending April 28, reflecting increases in copper scrap, steel scrap, and zinc. The five metals in the daily index of "spot" markets were up about 20 per cent from their level in April a year earlier, and were 13 per cent higher than in May 1960, the peak month prior to the 1960-61 recession.

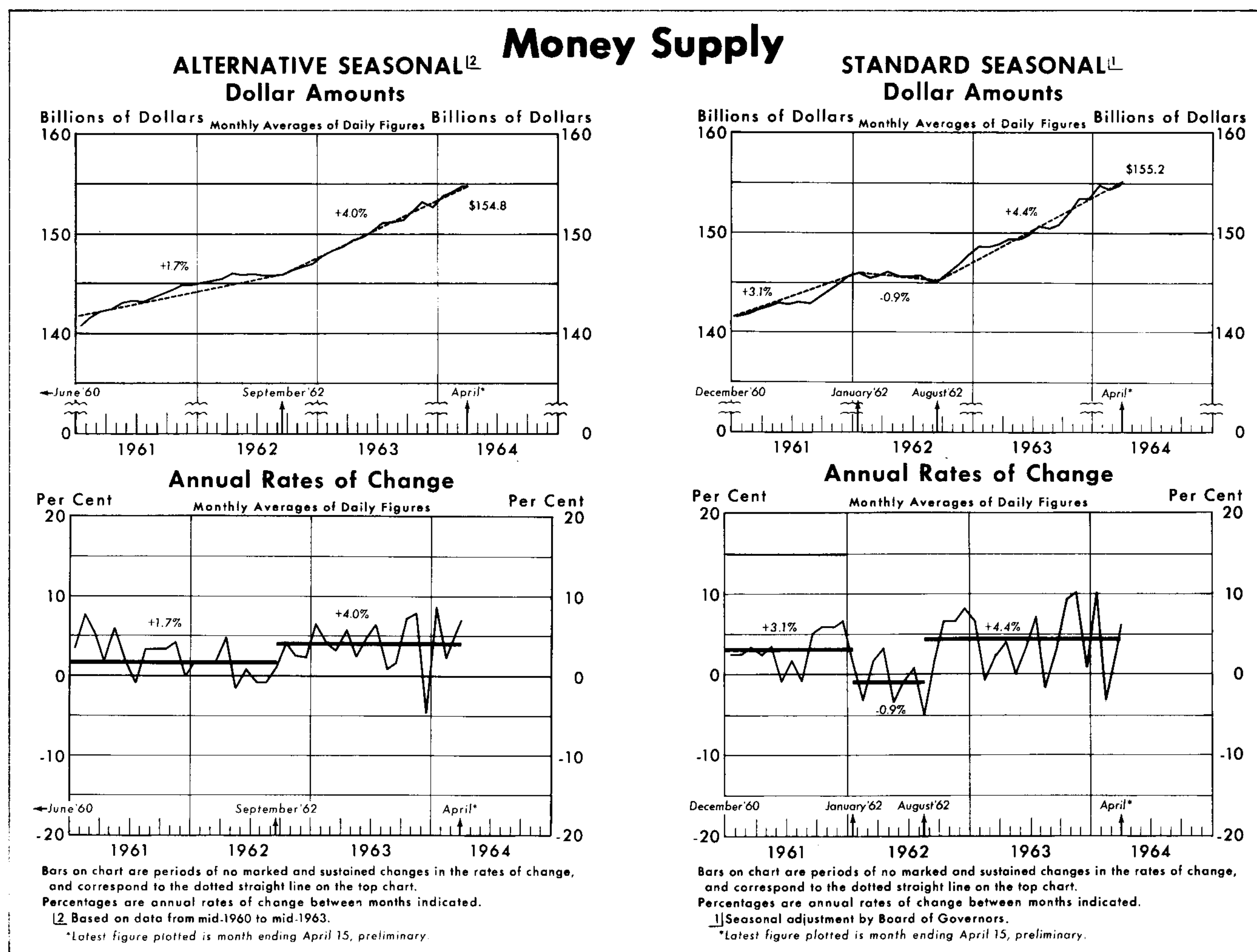
Financial Developments

The money supply increased at an annual rate of 3.9 per cent from December to April, according to the standard seasonally adjusted figures.[1] Using an alternative seasonal,[2] the money supply increased at a 5.5 per cent annual rate during this period. Weekly data indicate that the upward trend continued through April and into early May. As suggested in the April issue of this *Review*, beginning about mid-1960 there appears to have been a change in the intrayearly pattern of movement of the money supply. As a result of this changed pattern, the standard seasonally adjusted data in recent years have tended to show a decline (or a reduced rate of increase) in the early part of the year and a marked increase in the latter months of the year.

The rate of increase in money since December is slightly greater than the rates which have prevailed since the fall of 1962. Beginning about September

[1] Computed by Board of Governors of the Federal Reserve System, using 1947-61 data.

[2] Computed by Federal Reserve Bank of St. Louis, using mid-1960 to mid-1963 data.



Bars on chart are periods of no marked and sustained changes in the rates of change, and correspond to the dotted straight line on the top chart.
Percentages are annual rates of change between months indicated.
2 Based on data from mid-1960 to mid-1963.
*Latest figure plotted is month ending April 15, preliminary.

Bars on chart are periods of no marked and sustained changes in the rates of change, and correspond to the dotted straight line on the top chart.
Percentages are annual rates of change between months indicated.
1 Seasonal adjustment by Board of Governors.
*Latest figure plotted is month ending April 15, preliminary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

1962 there was a marked increase in the rate of increase of the money stock. The rate of increase of the money supply has since averaged 4.0 per cent per year compared with a 1.7 per cent rate from June 1960 to September 1962. The increase in money has been accompanied by a rather pronounced increase in economic activity. Moreover, to the extent that monetary developments affect the economy with some lag, any effect of the relatively high rate of increase in money may not yet have been fully manifested.

The increase in money in recent months occurred in both its major components. Demand deposits rose at an annual rate of 4.5 per cent, and currency outside banks rose even faster.

Reserve Requirement Periods

THE March 1964 issue of *The Journal of Finance* contains an article by Albert H. Cox, Jr. and Ralph F. Leach entitled "Defensive Open Market Operations and the Reserve Settlement Periods of Member Banks." The article briefly discusses how member bank settlement periods for meeting reserve requirements on deposits evolved into the current regulations (weekly averages for reserve city banks and biweekly averages for other member banks).

The authors then outline objections to today's regulations, suggesting in particular that they require a huge volume of "defensive" Federal Reserve System injections and withdrawals of reserves through open market operations to offset intramonthly movements in other factors affecting bank reserves. It is contended that these System actions interfere unnecessarily with the private money market. The authors offer an alternative plan—lengthen the settlement period to one month for all member banks and stagger settlement dates among the banks. Under this system the authors maintain that the member banks could use excess reserves in one part of the month to offset deficiencies in another, reducing the need for the Federal Reserve to engage in "defensive" operations. Messrs. Cox and Leach discuss other advantages as well as raise and answer anticipated objections to the proposed system.

Peter D. Sternlight, in an accompanying article, raises and comments on additional questions concerning the desirability and feasibility of the proposal advanced by Messrs. Cox and Leach.

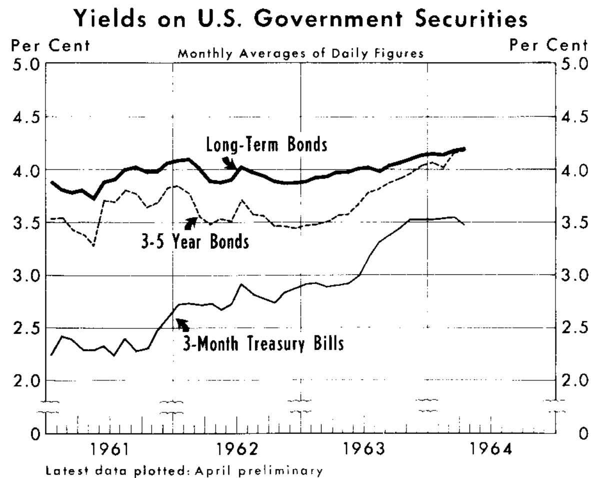
The increase in demand deposits since December has reflected several developments. Total member bank reserves increased at an annual rate of 3.5 per cent. An increase in total reserves permits banks to expand their loans and investments which, in turn, increases deposits. Because banks are required to maintain a given proportion of reserves behind deposits, as deposits rise, reserves are absorbed into required reserves. In January banks expanded their assets and deposits more rapidly than reserves increased, reducing the amount of reserves held in excess of requirements. On the other hand, Treasury deposits and time deposits rose markedly in this period. These deposits must be supported by reserves but neither is commonly included in the money supply.

Time deposits in commercial banks continued to rise in early 1964 but at a somewhat reduced rate. From December to April, time deposits rose at a 12 per cent annual rate. By comparison these deposits had risen at an average annual rate of 18 per cent during the three previous years. Sharpest expansion continued to be in negotiable certificates of deposit at large city banks; these certificates increased at an annual rate of 43 per cent.

Despite some declines in interest rates in April, yields on most marketable securities in early May were little changed from their January levels. Three-month Treasury bills, which averaged 3.52 per cent in January, were 3.50 per cent on May 6. Interest rates on highest grade corporate bonds rose from 4.37 per cent in January to 4.41 per cent in early May.

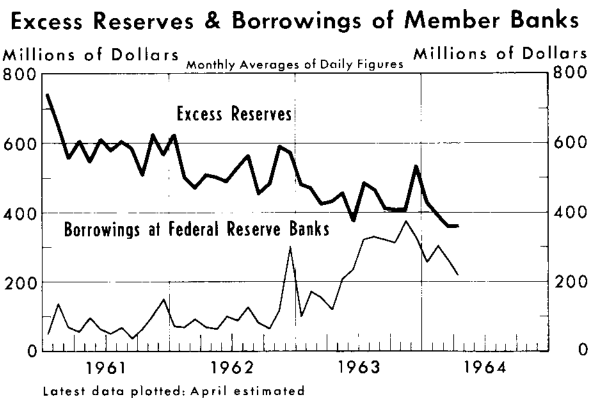
The relative stability in yields probably reflects a standoff of several countervailing forces. There were

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



forces tending to depress yields. Typically, yields decline during the spring months; this is especially true of yields on short-term money-market instruments. Also, the expansion in bank reserves made it possible for banks to increase their loans and investments. Bank loans to consumers and on real estate continued to rise sharply, business loans rose moderately, and banks increased their investment portfolios substantially. On the other hand, the expansion in business activity tended to increase the demand for funds, thereby exerting an upward pressure on interest rates. It might be noted that in late May seasonal factors begin to exert upward pressures on interest rates.

In the four weeks ending May 6, excess reserves of member banks averaged $336 million. Since January, excess reserves have fluctuated around an aver-



age of $375 million. Last fall these reserves moved around the $425 million level. Over the past seven years, excess reserves have averaged about $500 million. Cyclical movements in excess reserves have tended to be inverse to movements in short-term money market rates.

In the main, excess reserves are held by country banks. They constitute balances which are held because it is convenient to hold them or because it is not prudent for these banks to incur the costs involved in managing cash positions more closely. In relation to their total reserves, country banks almost always hold much more excess reserves than do reserve city banks. During the first quarter of 1964, for example, excess reserves amounted to 4.8 per cent of total reserves at country banks and 0.4 per cent at reserve city banks.

Member bank borrowings from the Federal Reserve in the four weeks ending May 6 averaged $214 million. Since the beginning of the year, these borrowings have fluctuated around an average of $260 million. During the fourth quarter of 1963 such borrowings averaged about $340 million. Last fall the interest rate charged on borrowings from Reserve Banks, 3½ per cent, was slightly less than the rate on three-month Treasury bills. Most recently this spring it has been slightly higher than the bill rate. Over the past seven years borrowings have fluctuated much more than excess reserves, tending to be large when market rates are higher than the discount rates and *vice versa.*

Because excess reserves have declined slightly since last fall, and because borrowings from the Federal Reserve have also been lower, the difference between them, sometimes referred to as free reserves, has remained substantially unchanged, fluctuating around the $100 million level.

NEW MEMBER BANKS

First National Bank of Clarksdale

Clarksdale, Mississippi

This newly chartered institution opened for business on April 1, with a capital of $260,000 and surplus of $260,000. Its officers are:

Oscar C. Carr, Jr., *Chairman of the Board*
Curtis E. Presley, Jr., *Vice-Chairman of the Board*
A. David Califf, *President*
Robert E. Bobo, Jr., *Vice-President*
George Wayne Winter, Jr., *Cashier*

* * *

The First National Bank of Sikeston

Sikeston, Missouri

succeeded the Planters Bank, Sikeston, Missouri, on April 13. It has a capital of $200,000 and surplus of $200,000. Officers are:

Eugene E. Redfern, *President*
D. W. Rudd, *Assistant Vice-President*
E. M. Allen, *Vice-President*
Emma N. Owen, *Assistant Cashier*
Donald R. Bohannon, *Vice-President and Cashier*
Lee C. Shell, *Assistant Cashier*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farm Commodity Exports and International Trade Policies

AGRICULTURAL EXPORTS are influenced by the foreign trade policies of this and other nations. Since the mid-1930's, this nation has pursued a conscious policy of "freeing" international trade. This policy, however, has not been completely successful. As a per cent of cash farm receipts, neither commercial exports nor imports of agricultural products have approached levels prevailing prior to the mid-thirties. Some of the factors tending to retard farm exports are examined in this article.

Farm Commodity Exports

Farm commodities valued at $5.1 billion were exported by the United States in 1963.[1] Exports financed entirely by the United States Government amounted to $1.7 billion, while commercial exports (sales for dollars) amounted to $3.4 billion. A large portion of the commercial exports were subsidized by the Government.

Total farm exports in 1963 were equal to about one-seventh of the nation's cash farm receipts and about one-fourth of total exports.

Farm commodity exports are especially important to the Central Mississippi Valley States where agricultural production and distribution, and associated services and manufacturing provide a relatively large portion of employment and income. Substantial portions of the area's major crops—cotton, soybeans, corn, tobacco, wheat, and rice—are exported. During the 1962-63 fiscal year, 58 per cent of the nation's wheat crop, 54 per cent of the rice crop, about one-fourth of the cotton, tobacco, and soybean crops, and about 12 per cent of the feed grain crops (corn, oats, barley, and grain sorghum) were exported. The above crops account for approximately one-half of the cash receipts from farm marketings in the Central Mississippi Valley area.[2]

[1] Fiscal year ending June 30.

[2] Arkansas and portions of the states of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee (the Eighth Federal Reserve District).

International Trade Policies

Relatively free trade, trade without tariffs or other government restrictions, generally prevailed throughout the world in the last half of the 19th century and until the beginning of World War I. With the exception of this period, from about 1850 to 1914, however, restrictions on trade have generally been the order of the day.

Following World War I, there was an observable world-wide trend toward increased trade restrictions, reflecting growing economic nationalism. During hostilities a number of nations had been unable to obtain needed products and had expanded their own industries. Agricultural production increased in many nations as supplies from usual sources were unavailable. Following the war, nations attempted to protect these industries from foreign competition.

Britain, traditionally a free-trade nation, inaugurated the "Key Industries" duty in 1921, levying a 33⅓ per cent *ad valorem* rate on numerous items. Furthermore, duties that had been imposed on a number of luxuries in 1915 were restored in 1925, following their lapse in 1924. In 1922 the United States raised import duties by enacting the Fordney-McCumber Tariff.

In order to protect home industries, many nations instituted direct trade restrictions by means of import and export licensing systems and exchange controls.

The League of Nations called a conference in 1927 in an attempt to stop the rising trend of tariffs. Another conference was called the same year to deal with quantitative restrictions. Negotiations dragged on until 1930 when higher tariffs in the United States nullified the efforts of both conferences.

The higher tariffs were effected by the Smoot-Hawley Act of June 1930. Rates were increased on more than 800 items. Retaliation from other nations was prompt. Canada, Cuba, Mexico, France, Italy, and Spain immediately raised their duties on products of importance to the United States. The following year, India, Peru, Argentina, Brazil, China, and Lithuania adopted general increases. In addition to higher rates,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

unfavorable public opinion led to unofficial boycotts of American goods in a number of nations. Probably the most serious aspect of the Act was the reversal of the efforts of nations to reduce trade restrictions.

Concurrent with these restrictive policies and a world-wide depression was a drastic decline in world trade. From 1929 to 1932 the dollar value of international trade dropped 61 per cent. United States imports and exports declined 77 per cent and 70 per cent, respectively.

In 1934 the United States, through passage of the Hull Reciprocal Trade Agreements Act, made the first of a series of attempts to expand international trade. Further tariff liberalization was provided in 1945, 1947, and 1955.

In 1947 the General Agreement on Tariffs and Trade (GATT) was formed with the United States as a member. The agreement contains several significant trade liberalizing features. It consists of three major parts: schedules of tariff concessions, a set of rules, and an administrative organization. Under the rules of the GATT, a concession extended by one country automatically applies to all other contracting parties. During tariff negotiations, each contracting party wanting to extend concessions meets with the major exporting country of each item being considered. As a result, all bilateral concessions are extended multilaterally to all other participants. Prior to this agreement, tariff negotiations by the United States were conducted bilaterally with individual foreign nations, and concessions obtained were often limited to one country.

Opportunities to negotiate for fewer restrictions in international trade were again broadened with the passage of the Trade Expansion Act of 1962.

In addition to attempting tariff reductions, Congress has enacted special legislation to enhance farm exports. Farm commodities were of major importance in the postwar assistance to Europe and Japan under the United Nations Relief and Rehabilitation Administration, the Marshall Plan, and other relief and recovery programs. In 1954 a fixed portion of economic aid funds was earmarked to buy surplus farm commodities from the United States. Public Law 480, which was passed in 1954, has provided the bulk of surplus disposal exports (Government financed exports) in recent years. This law provides for: (1) sales of farm products for foreign currencies, (2) disaster relief, (3) donations and barter, and (4) long-term dollar credit sales.

In addition, the Government may provide export payment assistance for both commercial exports and exports under the special Government-financed programs. Farm programs in the United States provide for the maintenance of domestic prices of many commodities at levels higher than world prices. Stocks thus accumulated cannot be marketed without some form of assistance. Such assistance is provided through both payment-in-kind and payment-in-cash programs.[3] Export payment assistance was obtained on about 30 per cent of all farm commodity exports for dollars in 1961-62 and more than 50 per cent of Government financed exports. In 1961-62 more than 90 per cent of wheat and flour exports, all cotton and rice exports, about one-fourth of the feed grains, and one-third of the dairy product exports were made with the assistance of export payments.

Results of Trade Agreements Acts

Since the Reciprocal Trade Agreements Act of 1934, the major countries of the world have negotiated numerous tariff reductions on internationally traded farm commodities. Despite the substantial rate reductions, modifications of quotas, etc., duties have often remained so high and other restrictions so effective that trade was not greatly affected.

Relative to cash farm receipts, the value of United States commercial farm exports is well below levels prior to the Trade Agreements Acts. Exports averaged about 20 per cent of cash farm receipts in the two decades from 1910 to 1930 and about 13.5 per cent during the depression years 1930-34. In comparison, commercial farm exports in the period 1960-63 averaged only 9.8 per cent of cash farm receipts (Table I). Exports relative to cash farm receipts have

Table I

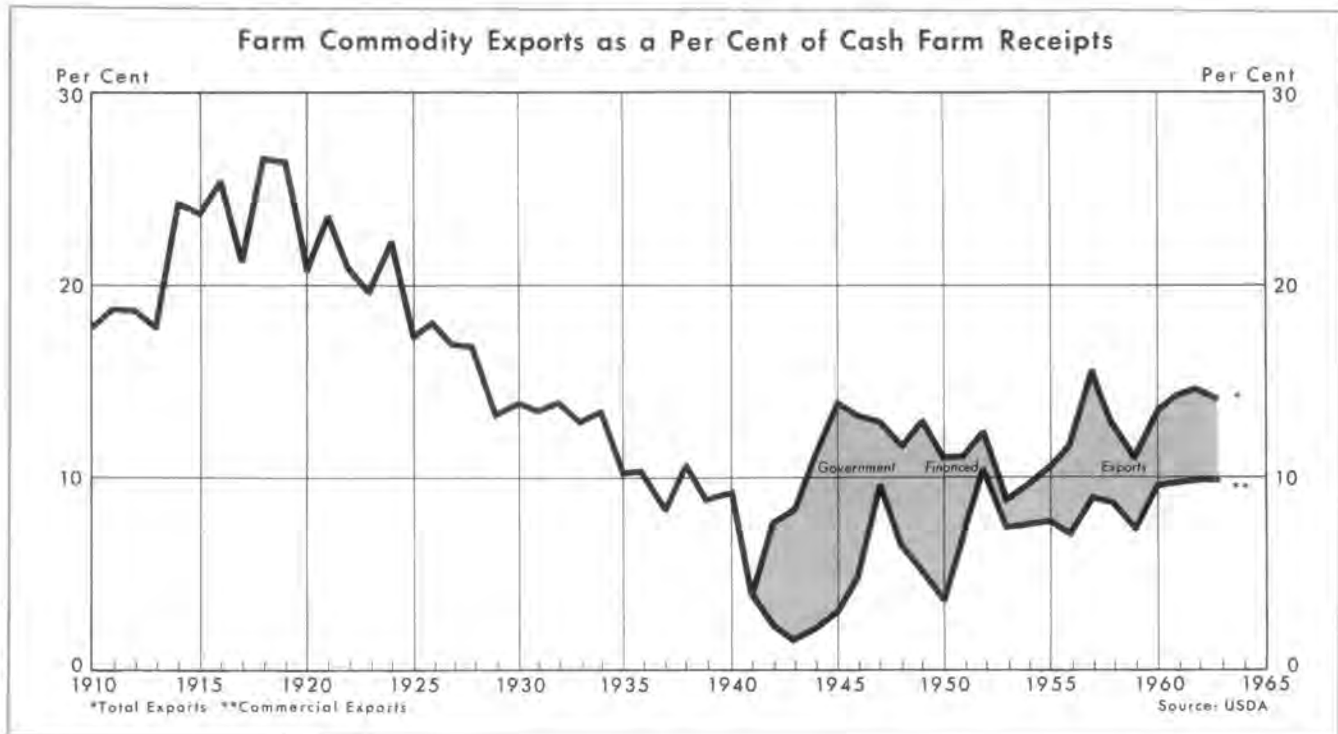
COMMERCIAL EXPORTS AS A PER CENT OF CASH FARM RECEIPTS

	Commercial Exports*	Cash Farm Receipts*	Per Cent of Cash Farm Receipts
	(Millions of dollars per year)		
1910-14	1,160	5,930	19.6
1915-19	2,640	10,600	24.9
1920-24	2,090	9,800	21.3
1925-29	1,790	10,900	16.4
1930-34	930	6,880	13.5
1935-39	750	7,800	9.6
1940-44	420	13,700	3.1
1945-49	1,570	26,000	6.0
1950-54	2,270	30,700	7.4
1955-59	2,480	31,000	8.0
1960-63	3,410	34,800	9.8

* Export data are for fiscal years. Cash receipts data are for calendar years up until 1930 and fiscal years thereafter.
Source: USDA

[3] Payment-in-kind export programs were developed by the Commodity Credit Corporation in 1956 and 1958. Upon proof of export of commodities, certificates redeemable in CCC commodity stocks are issued to exporters covering the difference between world prices and domestic prices. For some products, wheat flour, cotton, and tobacco, the exports payments are made in cash.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis



not increased greatly since the early 1950's (see Chart).

Farm Commodity Imports

Although agricultural exports have not shown a relative increase since the Trade Agreements Act of 1934, neither have agricultural imports increased. Imports during 1960-63 were only 11 per cent of cash farm receipts compared with about 15 per cent immediately before World War II and about 20 per cent in the 1920's.

Supplementary imports, i.e., those which compete directly with domestic farm products, have been equal to about 6 per cent of cash farm receipts in the past two decades compared with 9 per cent in the last part of the 1920's (Table II). Supplementary imports consist primarily of cane sugar, cattle and meats, fruits, nuts, vegetables, fats, oil, oil-bearing materials, tobacco, and apparel wool. These commodities accounted for 80 per cent of all such imports in 1962 (Table III).

Sugar and apparel wool are the only agricultural imports that supply a significant portion of the United States market in competition with domestic producers. In recent years sugar imports have accounted for about 50 per cent of domestic consumption. The percentage is down somewhat from levels prior to the 1930's, when imports averaged about three-fifths of domestic consumption. Imports of apparel wool have averaged about 40 per cent of domestic consumption since 1955, a larger proportion than in the thirties, but about the same as in the early twenties.

Although sugar and wool imports are a large portion of domestic usage, only a small per cent of the nation's farmers produce in competition with these imports. Farmers engaged in sugar production in 1959 numbered only 28,000, or 0.7 per cent of all farmers in the nation, while the value of domestic sugar output was only about one per cent of cash farm receipts. Although a larger proportion of the

Table II

IMPORTS OF FARM COMMODITIES

	Total Imports		Supplementary Imports*	
	Annual Average (Million dollars)	Per Cent of Cash Farm Receipts	Annual Average (Million dollars)	Per Cent of Cash Farm Receipts
1910-14	910	15.3	—	—
1915-19	2,020	19.1	1,230	11.6
1920-24	1,890	19.3	1,060	10.8
1925-29	2,220	20.3	970	8.9
1930-34	1,070	15.6	500	7.3
1935-39	1,150	14.7	620	7.9
1940-44	1,460	10.7	830	6.1
1945-49	2,430	9.3	1,300	5.0
1950-54	4,300	14.0	1,880	6.1
1955-59	3,920	12.6	1,690	5.5
1960-63	3,830	11.0	2,010	5.8

* Supplementary imports consist of all imports similar to agricultural commodities produced commercially in the United States and imports interchangeable to any sufficient extent with such United States commodities.

Source: USDA

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

nation's farmers (8.5 per cent) reported wool production, wool output was a relatively small proportion of income on most of the farms and accounted for only 0.3 per cent of total farm commodity sales in the nation.

Meat and cattle imports have increased in recent years. In 1962 cattle and beef imports provided 11 per cent of domestic beef consumption. Other supplementary farm commodity imports have generally been insignificant.

Reasons for Lack of Trade Expansion

The fact that United States foreign trade in farm commodities did not expand relative to domestic sales probably has a twofold explanation. First, the Trade Agreements Acts permitted many exceptions to tariff reductions, and second, the use of nontariff trade controls became increasingly important as nations assumed a more protective policy toward agriculture.

Immediately following the Trade Agreements Acts, the United States moved generally in the direction of lower tariffs. Rate reductions were relatively easy to negotiate as rates on many items were higher than necessary to prevent imports from competing with domestic production in most countries. Thus it was possible for substantial cuts to be negotiated without protest from competing domestic producers. Subsequently, it became difficult to make further concessions without intensifying competition. Increasing pressure developed to protect domestic producers, and extensions and renewals of the Trade Agreements Acts contained more restrictive clauses. Beginning in 1942, escape clauses were incorporated into some of the agreement, providing for their modification if imports threatened injury to domestic producers. In 1947 an executive order required an escape clause in all future agreements. This stipulation was also included in the Trade Extension Act of 1951.

When the Act was renewed in 1948, a "peril point" provision was added, requiring the Tariff Commission to survey all commodities on which the President proposed to negotiate concessions and to specify rates of duty below which, in the judgment of the Commission, tariffs could not be lowered without injury to domestic producers. Tariff rates below these points were permitted, but whenever such concessions were negotiated, the President was required to explain to Congress the reasons for his actions. In 1949 Congress extended the Trade Agreements Act without including the peril-point amendment. The amendment was again included, however, in the Extension Act of 1951.

In 1955 the "defense essentiality" amendment was added to the Trade Agreements Acts. This amendment directed the Office of Defense Mobilization to advise the President whenever any article was being imported in quantities sufficient to impair national security. If, following an investigation, the President found that imports were impairing national security, he was directed to take such action as he deemed necessary to adjust imports to a level that would not impair the national security.

The renewal of the Trade Agreements Act in 1958 was hailed for its long term (4 years, the longest of any renewal). The restrictions, however, were major handicaps, and the negotiating authority vested in the President was small. When American negotiators prepared to negotiate at the 1961 Geneva session of the General Agreement on Tariffs and Trade, "they found themselves hamstrung by the law's protective clauses."[4]

With our own negotiations limited and subject to modification whenever imports might tend to injure domestic producers, it is reasonable to assume that other nations entering into such negotiations were similarly cautious.

At the heart of the problem was the domestic farm policy of the United States. During the period from World War II through the 1950 decade, this nation assumed increasing responsibility for protecting agri-

Table III

MAJOR SUPPLEMENTARY COMMODITIES IMPORTED

	Value (Thousand dollars)	Per Cent of Total Supplementary Imports	Per Cent of U. S. Consumption*
Sugar	509,344	23.9	45.8
Cattle and Meats	576,184	27.0	5.6
Fruits, Nuts, Vegetables	230,668	10.8	7.6
Fats, Oils, Oilbearing Materials	152,124	7.1	1.0
Wool, apparel	120,177	5.6	38.7
Tobacco, unmanufactured	101,200	4.7	1.5
Hides and Skins	62,695	2.9	—
Dairy Products	54,166	2.5	1.2
Grains and Preparations	42,879	2.0	.7
Others	285,481	13.5	—
Total	2,134,918	100.0	

* Last column data are for 1961; other data are for 1962.

Source: USDA

[4] Christian A. Herter and William L. Clayton, *A New Look at Foreign Economic Policy* (Washington: U. S. Government Printing Office, 1961), p. 6.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

culture both from domestic and international competition. The following is a summary statement concerning these protective policies from the *United States and World Trade.*[5]

> On both sides of the Atlantic the times call, not for an excuse to do nothing, but a mandate to do something to clear world trade channels of these barriers. Among other beneficial results, success would allow the comparative advantage of U. S. agricultural production in many products to assert itself in the widest possible world market.

Nontariff Trade Barriers

While tariffs were the chief means of protecting both agricultural and nonagricultural industries until recent decades, they are now less significant in restricting imports. Extremely high levies would be required in most countries to provide the current level of protection for agriculture. The nations prefer to maintain tariff duties at relatively moderate levels and to use other protective measures such as import quotas, special clearings agreements, export subsidies, bilateral trade agreements, import licensing, and monopolies operating under governmental authority.

Trade in agricultural commodities has been the most important target of these trade barriers. Domestic farm programs generally involve government assistance through price support operations. To this end, some type of supply controls is essential. Deficit nations generally find that import restrictions are sufficient. Production controls are often used along with import restrictions in the surplus nations. All these methods tend to isolate agriculture from world trade. For example, if domestic prices for wheat in the United States were maintained at higher than world price levels and free imports were permitted, the nation would soon find itself supporting world prices.

Nontariff protection practices used by nations which purchase the major portion of United States farm commodity exports are included in the summaries, based on United States Department of Agriculture studies and other sources cited, in the box opposite. Health and sanitary regulations have not been considered as barriers, though in some instances they have probably been used to limit imports.

The United States Department of Agriculture has estimated the proportion of agriculture in 17 coun-

[5] *Final Report of the Committee on Commerce,* (United States Senate, June 26, 1961), p. 166.

Nontariff Trade Barriers

Japan

All commercial imports into Japan must be licensed. Thus, both the quantity and types of imports can be closely controlled. The Japanese are moving toward trade liberalization, but progress has been slow. Initially the licensing system was used primarily to conserve foreign exchange. In recent years, however, the nation's foreign exchange position has improved, reducing the need of import controls for this purpose. The control system is now used to an important degree to protect domestic industries, primarily agriculture, from foreign competition.

While Japan is the leading importer of United States farm commodities (table below), approximately 76 per cent of agriculture in the nation is protected through nontariff controls. The major grains—rice, wheat, and barley, which account for more than 60 per cent of total farm output—are clearly protected. Despite the licensing requirements, however, Japan imports large quantities of United States cotton, oilseeds, feed grains, and wheat.[2]

COMMERCIAL AGRICULTURAL EXPORTS FROM THE UNITED STATES BY COUNTRY OF DESTINATION, 1960-61

	Million Dollars	Per Cent of Total
Japan	492.2	14.3
Canada	487.7	14.1
United Kingdom	442.6	12.8
West Germany	355.0	10.3
Netherlands	334.6	9.7
Italy	173.9	5.0
Belgium and Luxembourg	129.8	3.8
France	99.0	2.9
Venezuela	84.6	2.5
Spain	62.7	1.8
Others	784.9	22.8
Total	3,447.0	100.0

Source: USDA

Canada

Canada ranks second in imports of United States commercial farm commodities, but a portion of these commodities is probably re-exported. Major commercial exports to Canada include: fruits and preparations, feed grains, oilseeds, vegetables and preparations, and cotton.

Grain imports into Canada are rigidly controlled by licenses. Licenses are granted at the discretion of the Wheat Board for imports of wheat, oats, barley, and specified grain products. Import permits issued by the Department of Trade and Commerce are required for several commodities, including turkeys, butter, cheddar cheese, dry skim milk, and butterfat.

[1] The principal source for this section is: United States Department of Agriculture, *Agricultural Protection by Nontariff Trade Barriers* (1963). Other sources are noted by subsequent footnotes.

[2] Joint Economic Committee, Congress of the United States, *Trade Restraints in the Western Community* (1961).

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Used by Selected Countries[1]

United Kingdom

The United Kingdom has restrictions on imports of a number of farm commodities. Such restrictions apply to apples, pears, several citrus products, pork, and other dairy products except cheese.

The United Kingdom also has a producer deficiency payment system. Price guarantees cover three-fourths of total farm output in the nation. This system encourages and shelters domestic production from world competition.

The United Kingdom has a tradition of relatively free trade in farm commodities. In the mid-19th century with the removal of the corn laws, the nation permitted cheap wheat from overseas to drive 200,000 workers off the farms in a ten-year period.[3] In recent years, however, the United Kingdom, like other West European nations, has been striving toward greater self-sufficiency in food production. For example, domestic wheat and wheat flour production accounted for 21 per cent of consumption in 1909-13, compared with 35 per cent in 1955-58. The degree of self-sufficiency in other cereals rose from 47 to 66 per cent and for sugar from 0 to 24 per cent during the period.[4] The United Kingdom is less self-sufficient than any other West European country. Nonetheless, the deficiency payment program has had an important impact on domestic resource use, food production, and imports.

West Germany

West Germany uses the variable levy-gate system of import controls. In addition, the nation has import quotas, both seasonal and other types.

Netherlands

The variable levy-gate system is used. In addition, quantitative import controls and minimum import prices are used to protect domestic agricultural prices.

Italy

Like other Common Market nations, Italy uses the variable levy-gate price system. Additional controls include State trading of wheat under a special EEC grant and temporary governmental authorization of imports of certain food items, such as livestock, meats, butter, and oil. State trading is also active in tobacco. Citrus juices other than grapefruit and fresh grape imports are embargoed.

3 Charles P. Kindleberger, *Foreign Trade and the National Economy* (New Haven: Yale University Press, 1962), p. 114.

4 J. Frederic Dewhurst, John O. Coppock, and P. Lamartine Yates, *Europe's Needs and Resources* (New York: Twentieth Century Fund, Macmillan and Company, 1961), p. 199.

Belgium

The variable levy-gate system of the EEC Common Agricultural Policy regulations is used by Belgium. Import quotas, minimum import prices, and seasonal restrictions are also used. Until recent years Belgium protected agriculture less than most West European countries. More recently, however, farm groups succeeded through government intervention in obtaining both higher domestic prices and increased protection from imports.

France

France as a member of the Common Market uses the variable levy-gate system and, in addition, has seasonal and arbitrary embargoes on imports.

Venezuela

A large per cent of agricultural commodities entering Venezuela are subject to an import licensing system. In some cases, the license is required for public health and sanitation; however, in most cases it is intended to protect and encourage local producers. In addition to the licenses, importers of certain products are required to purchase a fixed quantity of the domestically produced product for each unit of the product imported. Additional import controls are exercised through the foreign exchange market.

Venezuela had a minimum of restrictions on international trade throughout the postwar period until 1960. At that time balance-of-payments problems led to further restrictions.[5]

Spain

For many years, all imports into Spain were subject to license. Such licenses for dollar imports were normally granted only for goods regarded as essential to the national economy. Upon becoming a member of the Organization for European Economic Cooperation in 1959, Spain freed many imports from licenses. Most of the liberalization, however, occurred in the industrial sector. In addition to licenses, an annual global import quota is used, and a "fiscal tax" is imposed on most imports. All these restrictions are in addition to normal import duties.[6]

United States

This nation has quotas on some farm products as a part of the domestic price support program. These quotas limit imports. In addition the United States has some informal import limiting agreements and unusually high health and purity requirements which limit such imports as meat and rice.[7]

5 U. S. Department of Commerce, Overseas Business Reports, *Licensing and Exchange Controls of Venezuela*, Pub. No. 63-80 (1963).

6 U. S. Department of Commerce, *Economic Developments in Spain 1960; Basic Data on the Economy of Spain* (1960); *Economic Developments in Spain 1961.*

7 Joint Economic Committee, *op. cit.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

tries benefiting from nontariff import controls. These findings are presented in Table IV.

Table IV

Country	Percentage of Agriculture Benefiting from Nontariff Import Controls*
United States	26
Austria	91
Belgium	76
Denmark	87
France	94
Greece	82
Italy	63
Netherlands	79
Norway	97
Portugal	100
Switzerland	94
United Kingdom	37
West Germany	93
Canada	41
Australia	41
New Zealand	100
Japan	76

* Such import controls include: (1) Quantitative restrictions, mainly import quotas and embargoes (limit volume of imports and may discriminate as to source). (2) Variable levies and gate-price system (restricts imports to difference between supported domestic production and utilization). (3) Conditional imports (makes imports conditional upon other variables such as production, utilization, and price). (4) Monopolies (includes trading by State agencies, quasi-government agencies or private institutions operating under governmental authority). (5) Advance deposits on imports (considered nontariff barriers when discriminatory). (6) Import discrimination and preferential treatment (discriminate as to source of supply). (7) Import licensing (also discriminate as to source of supply if not granted automatically). (8) Bilateral agreements (included if they preclude free market access to country not party to the agreement).

Source: USDA, *Agricultural Protection by Nontariff Trade Barriers,* September 10, 1963.

In addition to nontariff restrictions on imports, other government programs have an impact on farm commodity trade. Such a program is the deficiency payment system of the United Kingdom. Payments to farmers tend to maintain higher than otherwise amounts of labor and other resources in agriculture, thereby limiting imports just as effectively as high tariffs or other controls.

International commodity agreements have also tended to restrain world trade. Such agreements were originally designed to stabilize markets and foreign exchange earnings in primary producing countries. Economic efficiency was to be achieved by giving a preferred position to low-cost producers. Long-run equilibrium prices were to be respected. These ends, however, have not been achieved. "One would be hard pressed to argue that it was the efficient producers of tin, sugar, wheat or coffee that earned increasing opportunities for supplying the market on the basis of quota privileges."[6] Furthermore, it is generally conceded that these agreements have not served the consumers' interest. Prices have generally been maintained at higher than equilibrium levels. New commercial substitutes have been encouraged and consumption often reduced.[7]

The numerous restrictive features of the Trade Agreements Acts pointed to the need for new legislation as indicated in the Report of the Joint Economic Committee to the Congress of the United States entitled *Foreign Economic Policy for the 1960's.*

> A simple renewal of the Trade Agreements Act on the lines of the 1958 extension will not suit the needs of our foreign economic policy in the 1960's.
>
> Much greater authority is needed now than was needed in 1958. We must be able to offer negotiations consistent with the speed with which members of the Common Market are eliminating tariffs among themselves in order to maintain the recent expansion of trade between Western Europe and North America. Authority to reduce tariffs 20 per cent over five years will not be enough.

The Trade Expansion Act of 1962 has provided broader authority for negotiations toward freer trade. The President can now take a stronger hand in dealing with nontariff restrictions. Special authority has been given him to negotiate with the Common Market and to eliminate gradually tariffs on broad categories of commodities in cases where the foreign trade of the United States and the Common Market account for 80 per cent or more of world exports in such a category. Special authority is provided to induce the elimination of unjustifiable import restrictions and quotas. To eliminate such restrictions the President is authorized to retaliate by imposing tariffs or import restrictions against foreign countries whose discriminatory import policies oppress United States commerce, especially in farm products.

The Trade Expansion Act also moderates some of the restrictions which had been added by amendments to the Trade Agreements Acts. The Tariff Commission will no longer set specific peril points. The "escape clause" is retained but it is more difficult to invoke.

Whether the Act can meet the needs for more efficient use of resources, both here and abroad, and the enhancement of economic growth and welfare remains a question. The law is only an instrument for implementing new trade policies. Such policies are not provided in the Act but remain subject to negotiation.

CLIFTON B. LUTTRELL

[6] Boris C. Swerling, *Current Issues in Commodity Policy.* Essays in International Finance No. 38 (Princeton, N. J.: Princeton University, June 1962).

[7] More recently such agreements, ostensibly designed for trade, have been recognized as a means of international assistance. See "International Commodity Arrangements and Policies", *Monthly Bulletin of Agricultural Economics and Statistics* (December 1963).

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis