

A Brief Profile of U.S. Agricultural Trade

James P. Houck

The United States is a world leader in agricultural trade.¹ As a nation, we now supply about 16 percent of the world's agricultural exports—more than any other country. In addition, we buy 10 percent of all the world's agricultural imports—second only to the United Kingdom.

Trade in farm products underpins our nation's international commerce. As figure 1 indicates, our \$6.2 billion of agricultural exports accounted for 23 percent of all U.S. commodity exports in 1965. In the same year, our agricultural imports of \$4.1 billion amounted to 19 percent of all U.S. commodity imports.

About \$1 out of every \$8 earned by U.S. farmers in 1965 came from products destined for export. On the other hand, \$1 out of every \$25 spent by U.S. consumers for food and beverages went for imported items, not including purchases of nonfood foreign agricultural products such as rubber, silk, and wool.

Figure 2 illustrates the agricultural import and export sectors of our foreign trade. Imports of farm products are classified into two groups, competitive and noncompetitive. Competitive products vie for markets also supplied by U.S. farmers. However, the 1965 farm value of all competitive imports, \$2.3 billion, was less than 6 percent of total U.S. farm marketings. Major items in this group are imported meats, sugar, wool, fruits, tobacco, and some dairy products.

Noncompetitive agricultural imports such as coffee, bananas, rubber, cocoa, and tea cannot be produced easily in

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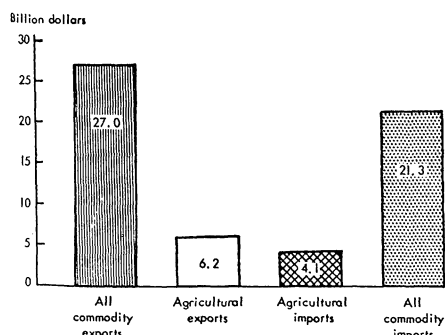
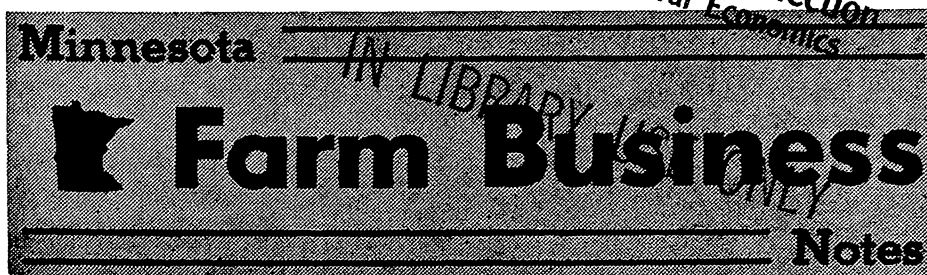


Figure 1. Agricultural versus total U.S. trade, 1965.

¹ Trade data in this article are from the regular issue and the special supplement of *Foreign Agricultural Trade of the United States*, ERS, USDA, June and July 1966.



FOOD FOR PEACE PROGRAM AND INDIA

J. S. Mann

India has received more food under the U.S. Food for Peace Program than any other nation. On March 30, 1966, President Johnson asked Congress for authority to ship to India 3.5 million tons of bread grains, 200,000 tons of corn, 150 million pounds of vegetable oils, and 125 million pounds of milk powder. These commodities are needed vitally by India to avert a serious famine. This article discusses the history of our food aid program in India, its contribution to the Indian economy, and its prospects for the future.

HISTORY

The Food for Peace Program operates under the Agricultural Trade Development and Assistance Act of 1954 (as amended), better known as Public Law (P.L.) 480. This law authorizes four types of special programs:

Title I. Sale of U.S. surplus farm products for foreign currencies that are not converted into dollars but remain in the recipient country.

Title II. Donation of surplus farm products to foreign governments for disaster relief and other assistance; grants of commodities to promote economic and community development.

Title III. Donation of surplus food to voluntary agencies for distribution; barter of U.S. agricultural surpluses for foreign-produced strategic materials.

Title IV. Long term dollar credits to facilitate foreign buying of U.S. farm products.

Title I in India—The first Title I agreement with India was signed in August 1956. Export values of commodities in Title I agreements through December 31, 1965 are shown in the table. Of the total market value of \$9,649 million programmed for all countries under Title I during the 1954-65 period, \$2,686 million (28 percent) were for India. Wheat and flour, rice, and cotton were the most important commodities included.

The Indian government pays for

Dollar value of commodities programmed under Title I, P. L. 480 agreements signed July 1, 1954 through December 31, 1965

| Commodities | All countries | India | India as per- |
|-----------------------------|---------------|-------|-----------------------|
| | | | cent of all countries |
| million dollars | | | |
| Wheat and flour | 5,597 | 2,086 | 37 |
| Feed grains | 552 | 61 | 11 |
| Rice | 611 | 217 | 36 |
| Cotton | 1,310 | 270 | 21 |
| Tobacco | 316 | 14 | 4 |
| Dairy products | 138 | 8 | 6 |
| Fats and oils | 1,037 | 30 | 3 |
| Other | 88 | | |
| Total market value | 9,649 | 2,686 | 28 |

Source: *The Annual Report of the President on Activities Carried out Under Public Law 480, 83rd Congress as Amended, During the Period January 1 through December 31, 1965*, House Doc. No. 457-89/2, Washington, D. C., June 1966.

these commodities in rupees that remain in India. These rupees are utilized for specific purposes such as:

- Loans to the government of India for economic development.
- Grants to the government of India for economic development.
- Loans to private enterprise.

Loans totaling \$1,000 million were made to the Indian government through June 30, 1965. Of this amount, \$840 million were for industry and mining, \$9 million for agriculture, and the rest for miscellaneous purposes.

Grants of \$542 million were disbursed through June 30, 1965 to the Indian

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Food For Peace . . .

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government for the following purposes:

| Purpose | Millions |
|---------------------------------|----------|
| Education | \$221 |
| Health and sanitation | \$159 |
| Labor | \$54 |
| Food and agriculture | \$49 |
| Industry and mining | \$35 |
| Transportation | \$23 |
| General and miscellaneous | \$1 |

Title II in India—Under Title II, transfers of commodities worth \$18 million were authorized for India through December 31, 1965. The commodities were bread grains, coarse grains, milk and milk products, and rice.

Early efforts were devoted to famine relief in flood-stricken areas. In 1962, however, about 8,400 tons of wheat were shipped to India for a single development project in the economically depressed area of West Bengal where underemployment is serious and the level of food consumption is low. By restoring abandoned irrigation systems, this project, when completed, will provide irrigation for 40,000 acres and furnish work for 20,000 workers.

For this project, U.S. wheat is exchanged for rice from Indian stocks. The rice is used as part payment of wages to workers. The remaining wages and other costs are paid from money appropriated by the Indian government. The wheat is sold elsewhere in India by the government.

Title III in India—Title III provides two kinds of programs: (1) the donation of surplus food to accredited, nonprofit, voluntary relief agencies and inter-governmental organizations for distribution in India and (2) the barter of surplus commodities for strategic and other materials, goods, and equipment.

About 1,701 million pounds of commodities, valued at \$235 million, were

donated to India through December 31, 1965. Agencies participating in Title III programs in India are: (1) Catholic Relief Service, (2) CARE, (3) Church World Service, (4) Lutheran World Relief, and (5) United Nations Children's Fund.

Materials valued at \$93 million were received under barter contracts from India through December 31, 1965. India received agricultural commodities in exchange.

Title IV in India—No agreement has been signed with India under Title IV. However, under the food aid bill now before Congress, local currency sales programs (Title I) will move over 5 years to a dollar-credit basis (Title IV). Agricultural commodities will be sold only for dollars but on generous terms. According to the bill passed by the House of Representatives, payments will be spread over 40 years, a low rate of interest will be charged, and the first payment will be postponed for 10 years.

CONTRIBUTION TO INDIAN ECONOMY

The Food for Peace Program has contributed significantly to India's economic development. These shipments have reduced hunger and averted famine without requiring India to spend scarce foreign exchange for emergency food supplies.

The major role of P.L. 480 lies in combating India's two central food problems: (1) existing low levels of consumption and (2) the longrun race between demand and supply.

Present dietary levels in India are low; about 60 percent of the families eat less than 2,500 calories per capita per day. In 1962, the Indian population was 485 million and it is increasing at the rate of about 2.5 percent per annum—an additional 12 million people per year.

The per capita money income is also going up, partially because of deficit-financed government expenditure. Recently the tempo of expenditure accelerated due to a build up of military power. In 1962 the defense expenditure was forced up from 2½ percent of the gross national product to about 4 percent. A large proportion of this additional money income is spent on food, further increasing the demand. But the production of food grains in India has increased only by 2.24 percent per year since 1951.

The Indian economy is highly vulnerable to unpredictable monsoons or seasonal rains. Every few years, bad weather leads to crop failure and the

spectre of famine looms throughout the nation. In fall 1965, India faced the greatest drought in decades; the production of food grains declined by about 12 million tons from the previous year's harvest. In such emergency, P.L. 480 shipments help tremendously.

Specifically, P.L. 480 Title I imports were about 4-5 percent of the cereals available for consumption in India during 1956-63. Wheat imported under this law was over 21 percent of net supplies for 1957-63—a significant contribution.

P.L. 480 exports to India from August 1956 to December 1960 "contributed an average of 74 calories per day per capita to the Indian diet . . . , or the equivalent of about 3.5 percent of the daily per capita caloric intake in India." Since 1960 the contribution has been even greater.

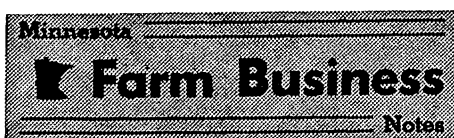
With this situation a relevant question is: What was the effect of P.L. 480 imports on domestic prices of these commodities? Commodities imported under P.L. 480 were sold to the consumers through numerous licensed retail dealers called "fair price shops." Research at the University of Minnesota's Department of Agricultural Economics found that some downward effect on prices occurred. However, because distribution of P.L. 480 commodities was controlled, the effect was very small.

The next important question is: What effect did these price changes have on domestic production? It has been argued that Indian farmers, faced with a price decline of farm products, have less incentive to maintain or expand agricultural production. Our research shows that a moderate decline in domestic supply took place, but this decline was always less than the quantity imported. The total quantity available for consumption (including domestic supply and P.L. 480 imports) was greater than what it would have been without P.L. 480.

Because commodities received under P.L. 480 saved scarce foreign exchange, India could import machinery and equipment for industrial growth and diversification. By generating income and creating employment, this process stimulated overall economic growth.

FUTURE PROSPECTS

India is in the grip of a chronic food shortage. The population is growing rapidly. Due to public health measures



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¹ William F. Hall. *P.L. 480's Contribution to India's Economic Development*. ERS-FOR-8. ERS. USDA. May 1961.

the death rate has gone down but the birth rate is still high. Per capita money income also is increasing. Domestic food production is growing slowly, so the food supply is left behind in the race with demand. To fill this gap, food shipments will be needed for several years.

A recent study concluded that: "India's minimum average annual import requirements for food grains by 1975-76 will probably total roughly 7 million metric tons."

The new U.S. food aid legislation probably will eliminate the requirement that only "surplus" commodities be shipped. Developing countries making concerted efforts to improve domestic agriculture will receive priority under the new food aid program. But these food shipments cannot be continued forever. Even if the United States called back into production all of its unused 60 million acres, the requirements of diet-deficient countries will exceed the U.S. capacity to produce after 1980.

To win the war against hunger, India must take steps in two directions: (1) an imaginative population policy and (2) a vigorous technical program to revolutionize agriculture.

India is trying to increase fertilizer production, improve soil and water management, provide agricultural credit, and control floods. The government has set up family planning clinics to provide birth control information. However, the program has not yet spread over the half million villages where 83 percent of the Indian people live.

The need for self-help in aid-receiving countries was emphasized by President Johnson in his February 10, 1966 Food for Peace message to Congress. He called for increased capital and technical assistance to developing countries including India.

With self-help, progressive policies, and technical assistance, India ultimately will be able to meet her food and fiber needs. *But, in the meantime, Food for Peace will play a vital role.* ■

U.S. Agricultural Trade . . .

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the United States. About \$1.8 billion worth of these products arrived at U.S. ports in 1965, giving us as consumers a wide assortment of items we could not obtain otherwise.

In figure 2, U.S. agricultural exports are grouped according to their terms of shipment—fully commercial, partly assisted, and food aid. In 1965, \$3.6 billion worth of fully commercial sales dominated our farm export statistics. These conventional dollar sales are for soybeans, feed grains, meats, fruits, vegetables, and tobacco. Our major customers for such sales are the nations of Western Europe, Canada, and Japan.

Partly assisted exports totaled about \$1.1 billion in 1965. For these dollar sales, the government provides subsidy payments to bridge the gap between supported domestic prices and lower world prices. Without this assistance, U.S. exporters could not afford to sell wheat, cotton, and rice on international markets.

Food aid exports are shipments of U.S. agricultural abundance to developing nations under special terms. Also known as the Food for Peace Program, these shipments provide food and fiber for famine relief as well as economic development projects in Asia, Africa, and Latin America. Food for Peace comprises 44 percent of our total foreign aid program. Nevertheless, 1965 food aid shipments, totaling \$1.5 billion, were less than one-fourth of all U.S. farm exports.

Figure 3 illustrates the commodity composition of 1965's food aid exports. Note that wheat and flour dominated the picture, amounting to 56 percent of the total. India, a nation of 500 million people facing acute food shortages, received 31 percent of all food aid shipped in 1965. Some results of our food aid program in India are discussed in the other main article of this issue.

Throughout the 1960's, agricultural exports have been greater than imports. In 1965, exports outstripped imports by \$2.1 billion. Even when food aid exports are omitted, U.S. agriculture displays a solidly favorable

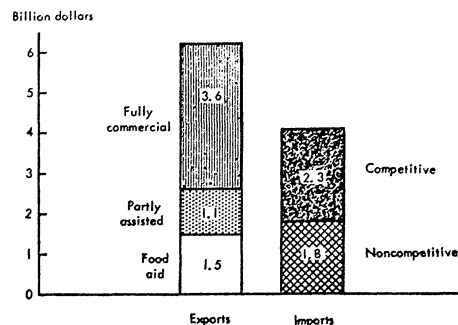


Figure 2. U.S. agricultural exports and imports, 1965.

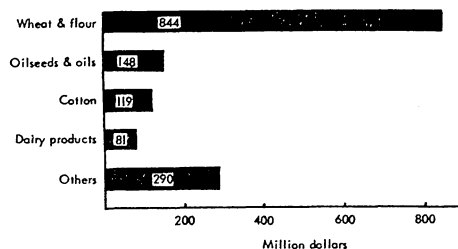


Figure 3. U.S. food aid exports by commodity, 1965.

balance of commercial trade. For each dollar of *competing* foreign agricultural products sold in this country, U.S. farmers sell \$2.04 worth of their products in commercial overseas markets for dollars.

Moreover, as a major food importer, the United States provides a needed market for many nations whose well-being is tied closely to international sales of agricultural commodities. More than 70 percent of U.S. farm imports are supplied by developing nations in Asia, Africa, and Latin America. In 1965, Central and South America provided 41 percent of our overseas farm purchases.

Foreign trade experts are uncertain about our future farm exports to the six countries of the European Economic Community because of new import barriers. However, surging economic growth in these six nations and elsewhere in the developed world should sustain a strong commercial demand for our future farm output, especially for soybeans and feed grains.

In addition, expanding populations and ambitious economic development programs in developing countries will require heavy U.S. commitments of food aid under special terms. Legislation now before Congress undoubtedly will extend programs to meet these requirements. In total, export of U.S. food and fiber will remain a vital source of farm income. ■

² USDA. *Supply of and Demand for Selected Agricultural Products in India, Projections to 1975-76.* ERS-FOR-100. ERS. p. 21.

For the 1967 outlook picture in detail, see:

What's Ahead for Minnesota Farmers, Farm Management Series FM-1, Fall-Winter Crop and Livestock Outlook 1966-1967.

For your copy write to: Agricultural Economics Extension, Temporary South of Coffey, University of Minnesota, St. Paul, Minnesota 55101.

Agricultural Outlook for 1967

P. R. Hasbargen and V. W. Ruttan

The American economy is experiencing its 6th year of uninterrupted economic expansion, and agriculture has shared in it. The strong nonfarm economy attracted much labor out of agriculture. So as unemployment dropped to its lowest level in a decade, returns per laborer in agriculture reached a record high.

The last 12 months saw an unprecedented economic expansion. Responding to an expansionary fiscal policy and rising defense expenditures, the economy produced a sharp increase in real output.

With the economy operating at near capacity, labor shortages appeared in some areas. Wholesale and retail prices rose by approximately 3 percent following several years of relative stability. Attempts to restrain excess demand through tight credit and high interest rates resulted in reduced output in such industries as housing and automobiles. These industries are particularly sensitive to changes in the cost of money.

Increased demand for farm products provided the main force for the strong agricultural product prices of 1966. Consumer incomes were exceptionally strong. Total exports of agricultural products were up by 10 percent in the 1965-66 marketing year.

Prices received by farmers rose sharply during the last half of 1965 and the 1st quarter of 1966. In the 1st quarter they averaged 12 percent above year-earlier levels—livestock prices up by 20 percent and crop prices down slightly. Since then, crop prices strengthened while livestock prices declined, resulting in an 8-percent average price increase for the first half of 1966 over the same period in 1965.

Along with general inflation, farm costs increased during 1966. Labor costs went up sharply as nonfarm opportunities presented strong competition in many areas. Land values in March 1966 were 8 percent above year-earlier levels.

Realized net income to U.S. agriculture for the first half of 1966 is estimated at an adjusted annual rate of \$16 billion. This amount—the highest re-

corded in almost 20 years—is up sharply from the \$13.8 billion of 1965. The last half of 1966 will almost match the first half in realized net income. Therefore, the yearly total should be about \$2 billion over 1965.

In the coming year, general economic activity will expand at a somewhat slower pace than during the past 12 months. Nevertheless, government expenditures for military and civilian programs will expand, as will business expenditures for new plants and equipment. The demand for labor will remain strong.

The economy is raising a number of storm signals as it operates at near full capacity. As government, businessmen, and consumers bid against each other for resources, too much money will be chasing too few goods. Consequently, wholesale and retail prices will rise 3 to 5 percent.

Efforts to restrain inflationary pressures through increased interest rates could increase dislocation in industries sensitive to the cost of money. New fiscal policy measures designed to reduce aggregate demand, such as an increase in the income tax, probably will not have any significant economic impact before mid-1967.

The demand for agricultural products will increase in 1967; exports should reach new highs. Moreover, real consumer income will strengthen domestic demand.

Supplies of pork, turkeys, broilers,

and eggs probably will increase in 1967. However, beef supplies will decrease as the build up phase of the cattle cycle begins. Milk supplies will increase slightly but not enough to lower prices.

Crop production in 1966 is expected to be lower than in 1965. Since carry-over stocks are also down, supplies available for market will be lower during the 1965-66 marketing year.

If the 1966 crop is as low or lower than indicated in the August 1 *Crop Report*, prices received by farmers could increase again next year. Strong prices would result for the three most important Minnesota crops—corn, soybeans, and wheat. However, changes in government programs probably will encourage increased corn and soybean production in 1967. Wheat allotment increases of 30 percent over 1966 have been made already.

Livestock prices may hold most of their 1966 gains through next year. However, increased pork, poultry, and egg supplies will result in lower average prices for these products in 1967. But beef and dairy products, accounting for almost one-half of Minnesota's agricultural receipts, will bring higher prices in 1967.

In summary, unemployment will remain low for the coming year. Inflationary price increases will erode much of the gain from personal incomes. Nevertheless, per capita income will increase faster than prices for both farm and nonfarm sectors. The record net income per farm expected in 1966 may be surpassed in 1967. Although farm costs and land values will increase, the outlook for Minnesota agriculture is bright due to the favorable demand-supply relationships for important local commodities. ■

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