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U. S. Raw Cotton Exports and Prices

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U. S. raw cotton exports have fluctuated widely in the past four years because of combinations of circumstances relating partly to U. S. Government pricing policies, partly to economic conditions abroad.

In the year 1955/56 1/, U. S. exports were only 2.2 million bales. Foreign buyers knew that the U. S. policy of exporting at prices equivalent to supported domestic prices was to be altered, and they held off from buying U. S. cotton until this was done. While importing countries let their stocks of raw cotton run down somewhat, their consumption was high and rising, and exporting countries, other than the United States, were able to sell off current production and a good part of their excess stocks by accepting a price decline of several cents.

In the year 1956/57, U. S. exports were very large, reaching 7.6 million bales as compared with an average of 4.0 million bales in the five years 1950/51 to 1954/55. This was the result of peak consumption abroad and of a shift, in importing countries, from running down stocks to building them up once U. S. export prices were brought in line with prevailing world prices. This price reduction was accomplished, before the beginning of the 1956/57 season, by the Commodity Credit Corporation's auctioning supplies from its accumulated stocks. The CCC accepted bids from U. S. exporters averaging about 6-1/2 cents below U. S. spot market prices.

In the year 1957/58, a world-wide textile recession set in, affecting all types of textiles and fibers. Countries importing raw cotton found that their stocks had become excessive and some of them reduced stocks sharply in the course of the year. Over-all, not much progress was made in reducing total stocks in importing countries up to the summer of 1958. Foreign countries' cotton consumption, however, was off from the previous year, and this in combination with the cessation of inventory build-up meant a considerable decline in world trade in raw cotton. The share of U. S. exports in the total fell back from nearly 50 per cent in 1956/57 to about 40 per cent in 1957/58. 2/ However, this was still well above the 1950-55 average of 32 per cent, and the volume of U. S. exports for the year, at 5.7 million bales, would have been satisfactory had the trend within the year not been

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1/ The cotton marketing year runs from August 1 to July 31.
2/ Based on International Cotton Advisory Committee statistics including Iron Curtain countries.

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downward. Exports were again at about 6-1/2 cents below U. S. domestic prices 1/, which were up a little, as were also foreign prices.

In the current year 1958/59, a situation in some respects like that of 1955/56 has developed. The key item of similarity is that importing countries are buying cautiously. In 1955/56 consumption was rising, but buyers expected a change in U. S. export pricing policy. This year buyers are uncertain about future U. S. export pricing policy, while the current demand and supply position is weak, for the following reasons.

Consumption has been falling, at least until recently, and stocks in importing countries have seemed excessive and are probably now being reduced in total. Stocks in exporting countries appear likely to grow this year (in contrast to reductions over the previous two years in the U. S. and in 1955-56 abroad) because of rising acreage in many countries and record yields per acre in the United States in 1958. Pressures toward lower cotton prices are accentuated by the severe competition cotton and rayon are getting from wool and the newer synthetic fibers. In this situation, most cotton exporting countries have been willing to accept lower prices. For example, Mexican cotton has fallen several cents in price since early 1958, and Pakistan cotton dropped sharply after September. Exports by these and other foreign countries have been running much ahead of last year.

In the United States, where exports are currently low, the outlook may be significantly affected by the passage last August of the Agricultural Act of 1958. A two-choices support plan that is to be offered to growers, for the next two crops, may lead to acreage increases and to a domestic market price somewhere between the new alternative support levels and perhaps a few cents below present domestic market prices. Both the production and the price implications have contributed to foreign buyers' uncertainties about the future outlook. Even with the new Act, domestic prices will remain out of touch with world markets. But maintenance of the present spread between domestic and export prices would bring export prices closer to foreign prices.

1/ In the two years 1956/57 and 1957/58, 17 per cent of U. S. raw cotton exports were under P. L. 480 Title I, 12 per cent under Mutual Security, 11 per cent under barter arrangements, while 60 per cent (including 9 per cent financed by Export-Import Bank loans) were cash sales for dollars, almost entirely under the CCC program.

For the present, U. S. domestic prices are virtually unchanged, and under the subsidy system 1/ introduced last June to supplement sales from CCC stocks, U. S. export prices are being kept this crop year at 6-1/2 cents below domestic prices, while foreign prices are lower still.

As the current situation is summed up by the International Cotton Advisory Committee, foreign "prices are generally well under comparable United States quotations which explains why demand for these [foreign] cottons has been more active recently in contrast to the reduced interest in United States cotton." 2/ "If the United States is a residual exporter -- a fair supposition unless action is taken to alter the present [price] discrepancy between U. S. cotton and foreign growths -- exports could fall to around 3 million bales. However, quality factors and particularly the fact that much of the increase in aggregate production outside this country is in the extra-long staples may mean that exports will be somewhat higher than this." 3/

The original estimate of the Department of Agriculture last November that U. S. exports would amount to about 4 million bales in 1958-59 has been revised downward, and the most recently published official estimate is that they "are not likely to exceed 3.5 million bales." However, the Department states that "continuation of the estimated rate of exports during August-December on a seasonally adjusted basis would result in a total export figure of around 3 million bales." 4/

Some general considerations

The experience of 1955/56 and 1956/57 may easily be repeated. It is possible that a year or two from now, when the textile cycle may have reached a favorable phase and adjustments may have been made in U. S. export prices, U. S. raw cotton exports may be very much larger for a while than they are at present.

Several observations can be made about the international effects of U. S. cotton export pricing policies. Since 1956, export pricing has been made partially independent of domestic cotton pricing.

1/ "Subsidies" are to be paid in kind with cotton from CCC stocks. As before, cash drain on the Treasury (or indirect liability for later cash outlay) occurs only in connection with the original placing of cotton under support loan.

2/ Cotton: Monthly Review of the World Situation, Vol. 12, No. 5, December 1958, p. 10.

3/ The same, p. 6.

4/ The Cotton Situation, CS-180, January 30, 1959, p. 12.

1. While delay in adjusting U. S. cotton export prices downward has disturbing effects upon the U. S. balance of payments and also the Treasury's cash budget (since sales of surplus stocks for dollars are diminished), the effects upon the world economy, under current conditions at least, are not altogether harmful. At a time when international trade is somewhat depressed, it is a help for many countries that the United States can bear the burden of suffering all, or more than all, the temporary decline in world cotton exports, even though the benefits they gain are at the cost of reductions in their selling prices.

2. While delay in adjusting U. S. raw cotton export prices downward does not prevent a general decline in cotton prices elsewhere, it probably does help to prevent excessive decline. Even though free world production of raw cotton is not at present significantly in excess of free world consumption plus net exports to communist countries, the existence of fairly large stocks in exporting countries suggests that very active international price competition participated in by the world's major producer would be likely to drive prices temporarily below a long-term equilibrium level. A delay in adjusting U. S. export prices until world demand for cotton is ripe for recovery might therefore contribute to stabilization of foreign cotton prices near the reduced level they have now reached, a level that is possibly low enough to stimulate the use of cotton in competition with other fibers.

3. If, however, an effect of delay were to cause unnecessarily prolonged inventory liquidation in the cotton textile industries of the rest of the world, general economic expansion abroad might in some degree be slowed. It must be remembered that bearish cotton markets tend to cause liquidation not only of raw cotton stocks but also of textile inventories, and therefore tend to cause reduced activity in textile industries. Later, a correspondingly sharp recovery might contribute to the development of an unsustainable boom. The question is, which of the following two effects is the more important: prolongation of uncertainty about raw cotton prices, which certainly tends to prolong inventory liquidation; or avoidance of an excessive decline in prices and stimulation of foreign raw cotton exports at somewhat reduced prices, both of which help to maintain the purchasing power of other cotton producing countries.

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The Deficit and Inflation in the Philippines

Reed J. Irvine

The Republic of the Philippines is struggling with a difficult problem. It would like to continue to stimulate economic growth through deficit financing, but at the same time it wants to avoid price inflation, which would presumably make the consumers unhappy. This would be possible only if the resulting balance-of-payments deficit could somehow be financed, but here the Philippines have encountered difficulties.

The magnitude of the Government's desires is indicated by the fact that in the fiscal year that ended June 1958, the Philippine Government added no less than ₱370 million to the money supply by borrowing from the central and commercial banks and by drawing down its cash balances. This represented a 73 per cent increase in the net credit extended to the Government by the banking system, bringing the total to ₱884 million. This followed a 37 per cent increase during the 1956-57 fiscal year.

The heaviest part of the 1957-58 deficit came in the first half of the fiscal year. From June to December 1957, net credit extended the Government by the banking system totaled ₱254 million. At the same time, the private sector made heavy demands on bank credit, increasing borrowings by ₱121 million, nearly 9 per cent. Non-monetary deposits rose by ₱84 million in this period, partially offsetting the huge credit expansion, but the inflationary pressures generated were allowed to exert their main force on the balance of payments, with the result that the net gold and foreign exchange holdings of the Central Bank declined by ₱172 million from June to December 1957. The cost-of-living index, which is probably not a very accurate indicator of price trends, rose 5 per cent in this same period.

The loss of the cushion

By the end of December 1957, the net gold and foreign exchange holdings of the Central Bank were reduced to a mere $31 million, a very thin cushion. The note issue, which had been backed by a 39 per cent reserve of gold and dollars a year earlier, now had a backing of less than 8 per cent.

Under these conditions some action was clearly imperative if a serious price inflation were to be avoided. The Central Bank discount rate was raised from 2 per cent to 4.5 per cent in September 1957. "Austerity" measures were adopted in December 1957. Import allocations were slashed to conserve foreign exchange and advance deposit requirements for import letters of credit were imposed. These made it more costly to import and also soaked up money, since banks were not supposed to lend funds to cover the deposit requirements. The Government also trimmed its expenditures.

The results of "austerity"

The December measures were strongly protested as too severe, and relaxation began almost as soon as they took effect. However, imports were reduced, falling from ₱613 million in the last half of 1957 to ₱567 million in the first half of 1958. Bank credit to the private sector fell by ₱74 million in this period, and non-monetary deposits rose ₱47 million.

Deficit financing by the Government, however, continued heavy, though it was far below the level of the previous half. The Government's net bank borrowings and use of cash balances rose by ₱115 million in the first half of 1958. Foreign exchange holdings of the Central Bank rose by ₱21 million. Money supply rose 2-1/2 per cent, but this was barely reflected in the Philippine price indexes. The wholesale price index rose one per cent and the cost-of-living index showed no change.

One striking development of this period was the sharp reduction in government securities held by commercial banks. These fell from ₱318 million in June 1957 to ₱124 million in June 1958. The banks increased their holdings of cash and deposits with the Central Bank by ₱140 million and were in a good position to resume the expansion of loans to the private sector at the end of the fiscal year.

Wanted: A new cushion

The budget for 1958-59, as passed by the Philippine Congress, evidenced no appreciation of the fact that the cushion that had made the red-ink operations of the previous year appear relatively painless no longer existed. Congress passed a budget that provided for expenditures of ₱1346.5 million and only ₱1017 million in actual revenue in 1958-59. Revenue estimates have since been cut ₱73 million to ₱944 million, including some foreign borrowing. The Budget Commissioner has indicated that it is the intention of the Government to limit expenditures to ₱1106 million.1/ Past performance may leave some doubt as to whether this intention can be adhered to, but even if it is the deficit for the year will total over ₱162 million unless additional cuts are made or new revenues are found.

The Government counted heavily on obtaining large scale credits abroad that would help finance the balance-of-payments deficit and offset the inflationary impact of fiscal operations. Credits or promises of credits were obtained, but they did not serve the purpose. A large part of them could be drawn only if used for specific projects, which meant that drawing on them would at the same time involve increasing both

1/ Made up of ₱806 million in the General Account, ₱79 million from the Bond Fund and ₱221 million from the Special and Fiduciary Funds.

domestic and foreign exchange expenditures. This would not help the balance of payments nor would it counteract the inflationary effect of the budget deficit. Assistance which would accomplish these things could not be obtained without some assurance that measures would be taken that would prevent a recurrence of the fiscal and balance-of-payments performance of 1957-58 and result in a strengthening of the international reserve. No agreement was reached on this question, and the cushion remained extremely thin and hard.

The outlook

Figures are not yet available that would permit an analysis of the Government's fiscal performance in the first half of 1958-59, or even for the first quarter. It is known that the Government issued a total of ₱90 million in new securities during the June-December period and that Central Bank holdings of government securities rose by ₱91 million in the same period. However, ₱75 million of the new issue was accounted for by treasury notes floated to raise funds to repay Central Bank advances to the Government that were outstanding at the end of the 1958 fiscal year. This was not an injection of new credit. However, in December 1958, when this operation was carried out the total advances of the Central Bank rather than declining by ₱75 million actually rose by ₱26 million. Since the government deposits with the Central Bank rose by a little more than ₱75 million in December after declining sharply in the preceding five months it appears likely that a new budgetary advance, probably larger than the original, was made soon after the old advance was repaid. Precisely what amounts were involved or what the level of total government cash balances was at the end of the year is not yet known.

Philippine efforts to find ways of trimming the current year's budget and upping revenue have not been highly productive. The Cabinet's budget committee recently recommended a ₱15.2 million reduction of expenditures and an increase in postal rates that will bring in an estimated ₱1.5 million in additional income. An additional ₱21.9 million of what is called "added usable revenue" has been found, but this appears to consist largely of the transfer of funds from one account to another. For example the abolition of obsolete special funds and the transfer of foreign exchange tax funds long since collected but still held by the Central Bank will permit ₱11 million to be added to the general account revenues. Since these funds would not have been spent their abolition or inclusion in general account revenues will have no counter-inflationary effect. The net results of the economy drive to date are small in comparison with the deficit that is in prospect.

A change that may be more important is the raising of the special import tax rate on January 1, 1959. The Government has raised this rate to 17 per cent, but the legality of this move is in dispute. The United States claims that under the trade agreement the rate cannot be raised to more than 15.3 per cent. If imports remain at the level that has prevailed in recent months the 17 per cent rate would bring extra revenue of about ₱22 million in the second half of the current fiscal year. This would be halved if the increase is limited to the 15.3 per cent rate.

The authorities have made some efforts to tighten bank credit to the private sector, which rose by ₱52 million in the first quarter of the current fiscal year. The most recent and most promising of these was the decision to raise the lending rate of the Philippine National Bank by 2 per cent, effective January 1, 1959. This brings the Philippine National Bank rate to 8 per cent, with one per cent off for prompt payment, which is closer to the rates charged by other commercial banks. Since the Philippine National Bank holds over half the total banking assets in the Philippines, the higher rates will have a significant impact.

A less successful move to tighten bank credit was made in November 1958, when the Central Bank announced that it would no longer support the government securities market. The banks applied strong pressure and the decision was rescinded by the Monetary Board a few weeks later. At the same time a small government bond issue yielding 6 per cent was floated and an effort was made to secure wider non-bank investor interest in government securities. It is not clear how much success this effort has met with or how far it is likely to be pushed. It is possible that with a higher interest rate a substantial part of the government bonds might be sold to non-bank investors. It should at least be possible to divert some of the receipts of the social security fund and the Government's insurance corporation into these investments. In the past these funds have largely flowed back into the market through investments in stocks, mortgages or deposits with commercial banks.

With high prices prevailing for its major exports the Philippines increased export earnings in the first ten months of 1958 by 10 per cent compared to the same period in 1957. The country enjoyed an excellent opportunity in 1958 to put its house in order and establish a firm basis for future progress. This opportunity was passed by, but conditions remain favorable, especially with bumper food crops harvested in the fall of 1958. What appears to be most needed is a recognition by the Philippine leaders that sound monetary, fiscal and exchange policies are the best prescriptions for sustainable economic growth.

Bank Credit Extended
the Philippine Government1/

	1956 II	1956 III	1956 IV	1957 I	1957 II	1957 III	1957 IV	1958 I	1958 II
Claims on Government Central Bank									
1. Securities	385	365	451	548	511	647	785	832	842
2. Advances				11	30	35	35	45	160 2/
3. Advances on old currency	128	128	128	128	128	128	128	128	128
4. Total	513	493	579	687	669	810	948	1005	1130
5. Other bank claims on Government	419	438	356	294	348	231	168	188	240
6. Total	922	931	935	981	1017	1041	1116	1193	1370
Government Deposits and Cash									
7. Central Bank	190	158	112	101	117	105	56	85	192
8. Other banks	353	371	351	360	382	353	294	300	294
9. Total	543	529	463	461	499	358	350	385	486
10. Cash in Treasury vault	11	8	17	13	14	6	7	4	10
11. Total	554	537	480	474	513	364	357	389	496
12. Net Government borrowing from banks	379	402	472	520	518	683	766	808	884
13. Net borrowing less Treasury vault cash balances	368	394	455	507	504	677	759	804	874

1/ The data generally conform to International Financial Statistics figures except for (1) Cash in vault taken from the Central Bank Statistical Bulletin (p. 21) (2) Central Bank Advances based on subtracting line 3 from Advances to Government shown in Table 13 of the Statistical Bulletin (3) Postal savings not included in line 5.
2/ Includes ₱75 million to the Treasury and ₱85 million to ACCFA.

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Rice Roots Reflections

Reed J. Irvine

Most Americans who have been in Asia, and many whose knowledge of the area is based on little more than a daily reading of the newspapers, like to think that they know something about Asian attitudes. It is a poor journalist who cannot prove conclusively that the contest for Asia hangs on the degree to which the United States provides capital to underwrite the economic development which everyone knows to be uppermost in the minds of all Asians.

Over three-quarters of the inhabitants of South and Southeast Asia live in rural villages and are dependent on agriculture for their livelihood, but the number of Americans who have ever conversed with an Asian peasant is probably a fraction of one per cent of the self-styled authorities on the Asian mind. It is immensely refreshing to find an American who, after 19 years of experience either in Asia or concerned with Asian problems, had the good sense and humility to realize that, in his words, "I didn't know the Asian people. I had stood at their threshold, but I had never entered the door." This man, Mr. Arthur Goodfriend, decided that it was high time he entered the door, and a few years ago he set out with his family to spend a year living in an Indonesian village with the objective of trying to see the world through the eyes of an Indonesian peasant. He tells his story in Rice Roots,[1] a book which should be required reading for anyone who pretends to know how Asians think.

Goodfriend would probably be the last to claim that he has acquired a perfect understanding of the Asian mind, but he succeeds in communicating to the reader a picture of some of the people of Asia that very few Americans, including the experts, ever see or consider.

This is no travelogue, nor is it an anthropological village study. It is basically a study of attitudes and the environment producing them. Much is said of the image of America which the author and his family encountered. Perhaps few ideas about Asia have achieved wider currency than the notion that the Asian has been made very dissatisfied with his way of life as a result of the improved communication that has shown him how high western standards of living are. This quotation from the Indonesian textbook of the author's daughter gives a different view.

> ....In the U.S.A. (don't be alarmed) there are about 30 million motorcars--we can say that each family has at least one car. In the factories, each worker has one task. One puts on wheels, the other changes screws, another keeps records. You know, it would make us weary, wouldn't it? How different, for instance, from a silver worker in Indonesia. You must admit that our way gives us more satisfaction. "Time is money" is the American maxim. p. 49

1/ Goodfriend, Arthur, Rice Roots, Simon & Schuster, 1958.

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Goodfriend concludes that one of the serious mistakes made by Americans is in assuming that Asians are "ignorant, backward and poor," and that they "covet the material wealth of the West and want to emulate Western dynamism." He says,

> The Indonesians we'd met counted themselves knowledgeable, advanced in many respects, and rich. Rich in culture. Rich in spirituality. Rich in human experience. Rich in many ways they deemed more important than money....Most of the Indonesians we'd known didn't want cars or atomic energy so much as a better buffalo or bicycle. They didn't envy Western dynamism. What they wanted might be called "Eastern dynamism," the development and improvement of their own cherished institutions and familiar techniques, rather than replacement of those institutions and techniques by Western substitutes. p. 199

The sensitivity of the Indonesians to the idea that their way of life, their customs, and their beliefs are inferior to those of Europe and America made a deep impression upon Goodfriend. How radically an American may have to adjust his way of thinking to avoid giving offense is illustrated by his account of how he unwittingly hurt a villager's pride when in what he thought was a considerate gesture he ignored the man's invitation to relieve himself on the floor of his house and went outside to perform the function. He also recounts the villagers' reactions to U. S. economic aid, which was regarded as an example of Americans patronizing pity or as an act with "sinister purposes cloaked with charity." The struggle for the hearts and souls of the people of Asia, Goodfriend concludes, "...could not be won by the United States Government. It could not be won by feats of arms, nor by billions of dollars. It could be won only by Americans acting toward others with the same common sense that marked their dealings among themselves....It could be won only by showing toward others precisely the same consideration and respect for human pride and dignity we demanded for ourselves." It is his view that talk of the backwardness, ignorance and poverty of Asia does nothing to exalt the pride and self-respect of Asians, and it does nothing to inspire respect and friendship for those who, in so talking, reveal their own feelings of superiority.

One hopes that the paradoxical picture presented in this book of the great damage done the reputation of America as an unexpected result of the adoption of English as Indonesia's second language is not general throughout Asia. The English language, which should be a bridge to better understanding, has turned out to be the means by which a lurid picture of America as a land of violence, crime and obsession with sex is conveyed to the Indonesian masses. This is not communist propaganda. The picture is portrayed by low grade American movies, cheap American books and magazines and American popular songs. This is our cultural export to the Indonesian villages. At the same time there is a great shortage of English material that would help in the education of the people and create a more favorable image of America. In the view of one Indonesian sage quoted by the author, this is America's one "unpardonable error."

As for economic insights, Rice Roots, contains some interesting observations, though one wishes that it included more systematic discussion of living standards and work habits of the peasants. Goodfriend's observations present little support for the view that the economic and political views of the Asians are directly related to the degree of material prosperity they enjoy. The money cost of the material comforts enjoyed by the Indonesian peasant is certainly far below that of his American counterpart, but clearly money does not mean a great deal to the Indonesian. He apparently does not develop ulcers or become a communist because his liabilities may exceed his assets. Nature provides, according to one farm laborer, about three-quarters of the food required by his family. The climate is such that simple clothing and shelter suffice, and the amount of time required to earn a subsistence appears moderate. The terrifying shortage of doctors that shows up in the statistics is not that at all for the Indonesian peasant, who has greater faith in the native "dukun" than in the western style doctor. The enjoyments derived from the festivals and simple entertainments are perhaps no less than those provided by the American television programs. The slowness of the movement of Java's surplus population to Sumatra and Borneo becomes a little easier to understand when one appreciates the value the Javanese peasant attaches to the cultural and social advantages he enjoys in his native village.

In many ways Goodfriend's observations complement ideas expressed in "broad-brush" style in The Ugly American. Both seem to agree that the image which Asians have of America and the West will be heavily influenced by the ability of westerners to demonstrate to the Asians that they do not regard them as inferior, though Goodfriend is far more generous in his estimate of the impact of American officials and businessmen working in Asia. Both raise serious questions about some of the fundamental assumptions underlying American economic aid, suggesting that grandiose and expensive projects may not only be of little value, but may be counter-productive psychologically and economically. Perhaps the apparent failure of many of our programs to "pay off" stems from the fact that they have been largely based on false assumptions about the aspirations and attitudes of the Asians who live at the "rice roots."