U.S. Monetary Reform and Farm Trade

On balance, U.S. farm trade will benefit from world currency realignments-despite some offsetting factors.

The well-being of our agricultural trade has traditionally depended on stability in the international monetary system Trade generally flourishes when the system functions smoothly, and plummets when the system breaks down.

Fox example, the postwar monetary system conceived at Bretton Woods, N H., in 1944 gave the world nearly a quarter century of monetary stability. World trade boomed, and the value of U.S. farm exports nearly 'tripled during 1944-71.

During this period, the U.S. dollar emerged as the dominant currency in world commerce, and became the yardstick by which the values of other currencies were measured. Soundness of the dollar was virtually beyond question in the earlier years.

Confidence in the dollar began to weaken, however, when in 1960 the number of dollars in foreign countries exceeded the value of our gold holdings. Confidence was further shaken in 1971 when it became apparent that the U S. would incur its first balance of trade deficit in many decades.

Economic difficulties weren't confined to the U.S. Several other nations were struggling to maintain established par values Three major currencies were floating - as was the price of gold in private markets. Clearly, the monetary system in 1971 needed overhauling.

Against this backdrop, representatives of the world's ten leading industrial nations convened to begin work on a new international monetary system The so-called Group of Ten reached an agreement on Dec. 18, 1971, at Washington, D C 's Smithsonian Institution

The agreement resulted in a realignment of major world currencies - the U S dollar was devalued against gold 8.57 percent - and the establishment of an interim monetary system

The temporary system set more flexible margins for foreign currency exchange rates - a move deisnged to help countries solve balance of payments problems more easily. The wider margins allow currencies in foregin exchange markets to fluctuate 2.25 percent above or below par values. The previous limit was 1 percent

Consequences for the farm sector . . . The currency realignments generate a two-sided impact on U.S. farm trade by affecting both overseas demand and our vompetitive position in world markets.

With devaluation of the dollar, U S commodities become cheaper in terms of the currency of the importing country. Presumably, this provides stimulus for foreign nations to buy more American products

However, 47 countries then devalued their currencies, with the result that prices for American goods in these markets remained unchanged About a third of all U S farm exports go to these countries

Moreover, eight foreign nations devalued more than the U S, making American commodities more costly than before These countries take less than 4 percent of our agricultural exports

On the positive side, 62 nations did not devalue, so their currencies became more valuable relative to ours These countries take nearly two-thirds of all U S farm shipments.

Offsetting factors. Nearly 5 percent of our agricultural exports to the 62 nations, however, move under P L 480, and are not affected by changes in exchange rates An additional 30 percent of U S farm shipments to these nations are hampered by such notariff trade barriers as domestic support programs

The net result: of total farm shipments to the 62 nations, only 65 percent - or 43 percent of all U S commodity exports - are free to benefit from dollar devaluation

Commodities that stand to gain the most are soybeans, soy products, and cotton - products not grown in other developed nations Grains, however, are generally subject to nontariff barriers

Prospects mixed. Even in the absence of nontariff barriers, prospects for lifting our export volume aren't altogether rosy. For one thing, consumers in developed countries where incomes are relatively high are not likely to accelerate consumption of certain items just because prices drop slightly

Moreover, there's no guarantee that lower prices will be passed on to consumers Importers, wholesalers, retailers, etc, might widen their profit margin by continuing to sell at the same price, thus giving the consumer no incentive to buy more

A devaluation will not improve our competitive position in relation to third country suppliers unless these suppliers appreciate their currencies relative to the dollar Few did so Even when they did, the U S might still be at a disadvantage because some of these third country rivals have greater access to certain markets

For example, the U S in unable to gain advantage over France in grains sales to West Germany, though France allowed the dollar to devalue Why? The European Community's Common Agricultural Policy gives preference to France as a member nation

Moves by rivals. France and Australia are the leading grain competitors who let the dollar devalue Other major rivals that allowed devaluation include Turkey (tobacco) and Spain and Morocco (citrus fruits).

Major competitors that devalued along with the dollar - thus offsetting possible trade benefits - are Argentina and Canada (grains), Greece (tobacco), Brazil, Mexico, and the Sudan (cotton), Egypt (citrus fruits), and Thailand (rice).

The impact of more flexible exchange rates on U S farm trade is not without drawbacks. For one thing, the wider margins make the value of future payments less certain for both exporter and importer. Thus, some trade might not take place that otherwise would have

Though narrower exchange margins might give more impetus to trade, they may also dampen a nations' expansionary money policies that promote fuller employment

Trade growth. Meantime, as negotiators press for an acceptable balance between flexibility and rigidity, the interim monetary reform system appears to be working smoothly enough to permit trade expansion

Even during fiscal '72, when most major currencies floated for part of the year, U S farm exports surged past the $8 billion mark. And with the present world supply situation, the outlook for U S agricultural trade in fiscal '73 appears even brighter