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The Impact of Changing Exchange Rates on Farmers and Consumers

Harry Greenbaum
South Dakota State University

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THE IMPACT OF CHANGING EXCHANGE RATES ON FARMERS AND CONSUMERS

On August 15, 1971 a major change took place in United States economic policies. At that time, we instituted wage and price controls. At the same time, we announced that we would no longer convert foreign-owned gold into dollars.

While a discussion of the wage and price freeze received most of the headlines, the impacts of the change in the international position of the dollar have also had a profound impact on the world economy, the economy of the United States and the position of farmers and consumers in South Dakota.

One of the biggest of these is associated with the fluctuating position of the United States dollar in relation to other currencies. Prior to the change in policy the dollar held a fixed relationship to other major world currencies. Since 1971, it has been permitted to fluctuate.

BACKGROUND

At the end of the Second World War, there was massive destruction in most industrial countries.The United States, on the other hand, emerged from the war with a tremendous potential for peacetime industrial and agricultural production. There was much that the other countries wanted to buy from us. Obtaining sufficient dollars to buy these items, however, was a major problem.

During this period the United States government extended many loans and grants to war-devastated countries and private industrial firms invested billions of dollars in their industries. In addition, exchange rates were established which made the exported products from these countries cheap to American buyers and made American goods relatively expensive to their citizens. For example, an American tourist in Europe could enjoy a vacation for only a fraction of what it would cost at home, while an European traveler found American prices to be exorbitant.

As economic recovery took place, Europe and Japan rapidly increased their export capacity. The central banks of countries like Germany and Japan began to accumulate billions of American dollars. Other billions were deposited in the private banks of foreign countries. American exports faced a difficult time; even agricultural exports had to be subsidized to compete in the world market. By 1970, it became obvious that a modification in the world financial structure was needed. Nevertheless, the decision of August, 1971 came as a jolt to many in the international financial community.

A LOOK AT THE IMPACT

At the time of the change in the system, the German mark was worth about 29 cents. A German car selling for 8,000 marks would cost an American importer approximately 2,320 dollars plus taxes and transportation. Approximately two years later the mark was worth 42 cents. An 8,000 mark car would now cost the American importer 3,360 dollars. By January, 1974, the mark was back down to 35 cents; the 8,000 mark car was now worth 2,800 dollars. At the time of this writing, in August, the mark was back up to 39 cents.

While a rise in the price of the

mark makes German products more expensive for the American consumer it, at the same time, makes American products cheaper for the German consumer. A million dollars worth of American wheat would cost 3,333 marks when the mark is worth 30 cents, but only 2,500 marks when the mark is worth 40 cents.

OTHER CURRENCIES

During the past four years wide fluctuations have taken place in the dollar price of most major foreign currencies. The British pound, which was worth approximately $2.42 in July 1971, is worth only $2.12 at the present time. One hundred Japanese yen, on the other hand, were worth only 28 cents in July 1971, went as high as 38 cents in June, 1973, but had come down again to 33 cents by early August, 1975.

A VARIETY OF FACTORS

Many factors influence the comparative exchange rates between currencies. They include the relative rates of inflation between countries, world commodity prices, agricultural yields, domestic economic conditions, foreign investments and other currency flows between countries, expectations about the future and a variety of other factors. The cartelization of oil marketing has helped increase the exchange rates of major oil exporting countries and had a downward pressure on exchange rates of countries which must import most of their fuel. An increase in grain prices and increased exports of United States agricultural commodities has helped this country to partially offset the impact of higher world prices for imported petroleum.

WHEN RATES CHANGE

When the price of a foreign currency goes up in relation to the dollar, the goods from that country become more expensive to us as consumers and we are likely to import less. Farmers and other exporters, on the other hand, are likely to receive higher prices and find it easier to compete in the foreign market.

HARRY GREENBAUM
ASSOCIATE PROFESSOR IN ECONOMICS

Cooperative Extension Service
U. S. Department of Agriculture
South Dakota State University
Brookings, South Dakota 57006

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