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THE EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON U.S. TRADE AND TARIFF CONCESSIONS

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RUSSELL B. LONG, *Chairman*

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The Effect of Foreign Exchange Rate Changes on U.S. Trade and Tariff Concessions

Exchange rate changes and tariff reductions are related in that both affect the prices of internationally traded goods. An exchange rate change affects the entire range of a country's commercial and financial relationship with the rest of the world by altering the relationship between its currency and foreign currencies. In the case of a country's merchandise trade, exchange rate adjustment usually implies an across-the-board price effect on all traded goods. In contrast to exchange rate changes, tariff reductions, whether undertaken unilaterally or granted in trade negotiations, apply to imported goods to varying degrees since the level of the original tariff and the depth of the tariff reduction is not uniform for all products.

The effect of exchange rate changes on U.S. trade and tariff concessions is difficult to measure. The effect depends on the magnitude of the change, on the extent to which the change is reflected in the selling price of the traded item, and on the responsiveness of the traded items to price changes. These factors can be expected to vary for every country and every product, and also for every exchange rate adjustment. Moreover, in periods of rapid change in the internal economy, changes in consumer demand and in domestic price levels may be so pronounced as to obscure the effects of the exchange rate factor.

It is apparent that the exchange rate changes made by our foreign trading partners have had mixed effects on U.S. exports. U.S. exports were made more expensive relative to British goods by the United Kingdom's devaluation of November 1967 and relative to French goods by the French devaluation of August 1969. On the other hand, the German revaluation of October 1969 tended to make U.S. exports less expensive relative to German goods. Of even more importance, of course, the general exchange rate realignments agreed to on December 18, 1971 and February 13, 1973 should have a positive effect on U.S. exports, as well as on the trade and overall payments balance. The new exchange rate structure will make U.S. exports cheaper to foreign buyers in many countries and make imports into the United States more expensive compared to domestic production for products of countries whose currencies became more expensive in relation to the dollar.

While exchange rate changes and/or appropriate domestic policies have generally been the methods used in the past to correct payments disequilibria, tariff and other trade measures have on occasion been used to aid in restoring external equilibrium. Examples include Germany's unilateral tariff reductions in 1955 and 1956, as well as the temporary import surcharges employed by the U.K., U.S., and Denmark (among others). The schedule for staged implementation of Kennedy Round tariff reductions was accelerated by Canada and Switzerland for similar reasons. Recent policy statements by U.S. officials, and certain provisions of the Administration's proposed

Trade Bill, indicate the need for a closer linkage between trade and monetary policies, given the present structure of the world's monetary and trading system. For example, in exceptional circumstances and for limited periods of time, deficit countries may need to have recourse to commercial policy measures to protect their overall external position. One use of such measures would be to enable a country to get through a period during which more fundamental corrective measures would take effect.

Depending on how exchange rate changes and tariff reductions are used as policy measures, they can either complement or offset each other in their effect on the trade account. For example, a currency devaluation by a trading partner of the United States will tend to discourage U.S. exports to and promote U.S. imports from that country. A similar bilateral effect could be accomplished by a decrease in U.S. tariff rates and an increase in the other country's tariff rates. Unlike an exchange rate change, of course, an adjustment in tariff rates would directly affect only the trade account in commodities whose duties are changed, not duty free trade, or other aspects of the country's payments accounts such as its international investment flow and tourist expenditures.

The attached chronological listing of GATT tariff negotiations and exchange rate changes by the major trading countries does not suggest any direct relationship between exchange rate changes and tariff negotiations.

In particular, it will be observed that while various rounds of tariff negotiations were reducing tariffs multilaterally, there is no clear indication to suggest that exchange rate changes were used by particular countries to systematically offset tariff concessions. In fact, the number of devaluations equals the number of revaluations. Thus while in some instances particular countries' tariff concessions may have been offset to a degree by exchange rate devaluation, in an equal number of cases they were enhanced by exchange rate revaluation.

Chronological listing of trade negotiations and exchange rate changes, 1947–70

	GATT tariff negotiations	Major exchange rate changes
1947	Geneva, 1947	
1948		French devaluation.
1949	Annecy, 1949	United Kingdom devaluation.
1950	Torquay, 1950	Canadian float (revaluation).
1951		
1952		
1953		German revaluation.
1954		
1955	Geneva, 1955 (Japan)	
1956	Geneva, 1956	
1957		
1958		French devaluation.
1959		
1960	Geneva, 1960–61 (Dillon round).	
1961		German revaluation.
1962		Canadian peg (devaluation).
1963		
1964	Geneva, 1964–67 (Kennedy round).	
1965		
1966		
1967		United Kingdom devaluation.
1968		
1969		German revaluation; French devaluation.
1970		Canadian float (revaluation).
1971		U.S. devaluation; German revaluation; Japanese revaluation.
1973		General realignment (U.S. devaluation); (German revaluation); (Japanese float); (float by major European countries).

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