

DEVALUED FOREIGN CURRENCIES USED AS TRADE WEAPON
TO UNDERSELL COPPER PRODUCED IN UNITED STATES

In addition to lower labor costs and much higher grade of ore, it has been pointed out that foreign mines have been favored with better currency exchange. Just how this advantage of better currency exchange is gained by foreign copper producers is explained in the following discussion.

In the first place, when a country devalues its currency, it is for the purpose of cutting down on its imports and increasing its exports. Its citizens are discouraged from purchasing another country's goods because they have to pay out more pesos or francs or pounds (or whatever their unit of value is) to pay for the goods received from another country which has not devalued its currency. On the other hand, there is a rush to sell its goods to such a country because they receive in payment a unit of value that enables them to purchase more domestic labor and supplies than they had been able to do before devaluation. Their cost of production is the same (in pesos or pounds) both before and after devaluation.

For example, suppose a country devalues its currency from $7\frac{1}{2}$ pesos to the dollar to 15 pesos; a fifty percent devaluation. Domestic cost of producing goods would remain the same, in pesos, both before and after devaluation. Suppose they ship their goods to a dollar country. Then they would receive a dollar's worth of pesos - fifteen; where they had formerly received $7\frac{1}{2}$. They have made a profit of $7\frac{1}{2}$ pesos, or fifty cents, by the exchange. On the other hand, if they purchase a dollar's worth of goods from the dollar country, they would have to pay fifteen pesos for it where it had formerly cost only $7\frac{1}{2}$ pesos. They have incurred a loss of $7\frac{1}{2}$ pesos in their own money.

On September 19, 1949, England officially declared that the pound would henceforth be worth \$2.80 in U. S. dollars, instead of \$4.03. Instantly many other countries devalued their currencies. This was especially true of nations comprising the British Commonwealth, such as Australia, Rhodesia and Union of So. Africa,

which devalued the same amount, namely 30.5%. Like a chain reaction, devaluation then spread to other countries, such as Belgian Congo, Chile, Mexico and Peru. The reason these other countries immediately took action was because they did not wish to be flooded by British merchandise to the detriment of their own domestic economies.

Foreign copper producers in many cases were greatly benefited by devaluation, because their metal could be produced with little or no increase in the cost of production, and could be sold in the United States at prices which provided a handsome return.

The following table, compiled from data of the International Monetary Fund, local banks and The Wall Street Journal, shows the extent of the devaluations in the more important countries which have exported copper to the United States:

FOREIGN EXCHANGE IN DOLLARS

	<u>Jan. 1, 1949</u>	<u>Dec. 30, 1957</u>	<u>% Devalued</u>
Australia (Pound)	\$ 3.22	\$ 2.24	30.4
Belgian Congo (Franc)	.0228	.020	12.3
Canada (Free Dollar)	.925	1.01 5/8	8.1(Increase)
Mexico (Peso)	.1456	.0802	44.9
Peru (Sol)	.0675	.0528	21.8
Rhodesia & U.of So.Africa(Pound)	4.03	2.80	30.5
Quantitative Average *			<u>15.33</u>

* In 1956

Australia
Belgian Congo
Canada
Mexico
Peru
Rhodesia & U.of So.Africa

<u>Imported into United States</u>	
<u>Tons</u>	<u>Percent</u>
18,457	6.26
12,763	4.33
119,605	40.59
52,389	17.78
42,839	14.54
48,618	16.50
<u>294,671</u>	<u>100.00</u>

Note: Chile, with its 235,527 tons of copper, exported to the U. S. in 1956, is not included in this table, as its devaluation from \$.0329 to \$.0015 in its value of the peso, or 96.6% devaluation, and 2,841.2% increase in purchasing power of the U.S. dollar in terms of the new devalued peso, puts it so far out of line with the other countries, that the terrific inflation which has taken place there makes it of no value for comparative purposes. Unquestionably the copper producer in Chile did not get the benefit of such enormous purchasing power of the U. S. dollar in terms of the 0.15 cent peso.

Based upon the proportion of copper exported by the above six countries to the United States in 1956, the average percent devaluation amounted to 15.33%. That is, each dollar received by these countries was equivalent to \$1.181 in purchasing power on the average, based on the new currency value. In other words, the average devaluation of 15.33% resulted in an increase of 18.1% in purchasing power for the dollar.

Taking the average devaluation of 15.33% for each of the above six countries, the shipment of a pound of copper to the United States, when the domestic price of copper is 30 cents, would result in that average country being able to purchase 35.4 cents' worth of labor and supplies on the basis of that country's new currency value. Assuming such country's cost of production would be the same, both before and after devaluation, the profit from selling copper in the United States would be 5.4 cents per pound. With a 4-cent tariff, the profit would still be about 0.7 cts. per pound.

Taking each country individually the profit per pound of copper would be according to the following table:

	% Devalued	Purchasing Power of 30 cents U. S.	Profit Per Lb.Copper Due to De- valuation	Purchasing Power of 30¢ U.S. With 4¢ Tariff	Profit Per Lb.Copper Due to De- valuation
Australia	30.4	\$.432	\$.132	\$.374	\$.074
Belgian Congo	12.3	.342	.042	.296	.004(loss)
Canada	8.1	Inc. .270	.03(loss)	.234	.066(loss)
Mexico	44.9	.544	.244	.472	.172
Peru	21.8	.383	.083	.332	.032
Rhodesia & U.of So.Africa	30.5	.432	.132	.374	.074

It may be argued that while foreign currency was devalued 15.33% in 1949, the American dollar has lost 16.67% of its purchasing power during the subsequent 18 years. (Consumer Price Index in 1949 being 100; and in 1957 it reached 120). In other words, a 30 cent quotation for copper in 1957 would really be equivalent to 25 cents in 1949 dollars. The foreigner's profit of 18.1% by devaluation would

still be 4.5 cents (18.1% of 25.0 cents), or more than enough to pay a 4-cent tariff on copper. He would still be in competition with U. S. copper producers, with his cheap labor and high-grade ore. The two countries which have suffered because of devaluation by other countries are the United States and Canada, and the latter has had the advantage of copper being a by-product with relatively low cost of production.

Foreign countries which have profited handsomely by devaluation, because of large exports of copper to the United States are Australia, Chile, Mexico, Peru, Rhodesia and Union of So. Africa.

All of this brings to mind the question of reciprocal trade with foreign countries. If the proponents of reciprocal trade could come up with a formula for balancing currency exchange between all countries, there would be little call for a tariff on imports and exports.

It may be worthy of note that, recently, foreign copper prices have been roughly four cents per pound under U. S. copper quotations. With their average increase of 18.1% in purchasing power in their own country, foreign producers are well able to offer their copper at $4\frac{1}{2}$ cents under U. S. quotations (18.1% of 25 cents).

A P P E N D I X

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CURRENCY DEVALUATIONS IN CERTAIN COUNTRIES

(Source: Data of the International Monetary Fund)

- AUSTRALIA - The initial par value of the Australian pound was \$3.22, as established on November 17, 1947. On September 18, 1949, the par value was changed to \$2.24 which happens to be the rate in effect today.
- BOLIVIA - The initial par value of the boliviano, established on December 18, 1946 was 2.38¢ per boliviano. The par value was changed by decree on April 8, 1950 to 1.66667¢. On May 14, 1953, it was again changed to 0.526316¢ per boliviano. The free market rate today is 0.013¢.
- CHILE - The initial par value of the Chilean peso, established on December 18, 1946 was 3.22581¢ per peso. On October 2, 1953, the par value was changed to 0.909091¢ per peso. The Chile peso in today's free market is .145¢ per peso.
- MEXICO - The initial par value of the Mexican peso, established on December 18, 1946 at 20.5973¢ per peso. On June 17, 1949, the par value was changed to 11.5607¢ per peso. On April 19, 1954, it was again changed to 8.00000¢ per peso. Mexico today is 8.02¢ per peso.
- PERU - On December 18, 1946, the par value was 15.28¢ per sol. Peru now has a free market and a new par value has not been established. The latest quotation is 5.28¢ which measures the extent of the devaluation.
- UNION OF
SO. AFRICA - On December 18, 1946, the initial par value of the South African pound was \$4.03. On September 18, 1949, it was reduced to \$2.80. It is \$2.81½ currently.
- BELGIAN
CONGO - The Belgian Congo franc was established on December 18, 1946, at 2.28¢ per franc. On September 22, 1949, it was changed to 2.00¢ per franc.

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