

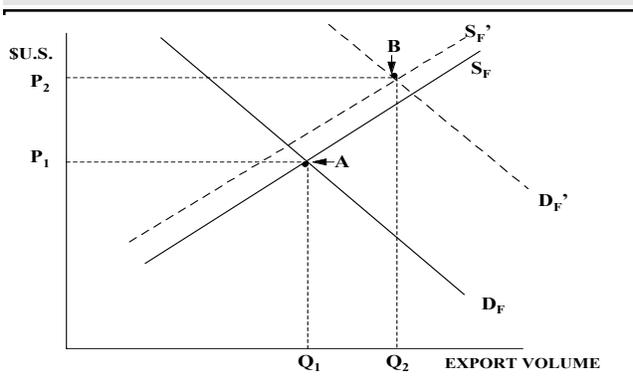
How Do Exchange Rates Affect California Agriculture?

A swing in the value of the U.S. dollar vis-a-vis foreign currencies is one of the most important factors determining the economic environment for California agriculture. Just like the price of any commodity or asset, demand and supply establish the exchange rate. Exchange rates are important determinants of both trade volumes and prices.

For instance, we can think of the exchange rate between the Japanese yen and the dollar as being equal to the number of yen required to purchase one dollar. Suppose the yen/\$ exchange rate moves from 120 yen per dollar to 100 yen per dollar. In this case the yen has appreciated, since an appreciation refers to a decline in the domestic price of a foreign currency. At the same time, the U.S. dollar has depreciated relative to the yen, since a depreciation refers to an increase in the domestic price of the foreign currency.

The international market for California agricultural exports is demonstrated in the accompanying graph. It shows the demand (D_F) and supply (S_F) of California's agricultural exports. An appreciation of the foreign importer's currency is shown as a rightward shift in the demand curve, which shifts from D_F to D_F' . Due to the foreign currency's appreciation, the importer can now purchase more U.S. goods than before at any price level, measured in \$U.S. There may also be a small leftward shift in S_F if some of the inputs in California agriculture are imported from abroad. The supply and demand equilibrium shifts from point A to point B in the representative graph.

The upshot is that the export price in U.S. dollars rises and the volume and price impacts depend on the shape of the supply and demand curve and the extent of the shifts in the supply and demand curves. If instead the foreign currency depreciated, the process is reversed and the impact would be represented as a movement from Point B to Point A. In this case, California's export volume and price would decline.



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A Time to Act

by Desmond Jolly

I was appointed by Secretary of Agriculture Glickman to the National Commission on Small Farms. *Time to Act*, the report of the National Commission on Small Farms was released in January, 1998. The report is the culmination of the commission's work based on several months of hearings and deliberations on the status of small farms in the U.S. *A Time to Act* makes recommendations to USDA, its land grant research and outreach partners, as well as to private agencies and institutions with respect to the adoption and implementation of policies, programs and practices that can contribute to the maintenance of a healthy diversity in production agriculture into the next century.

The report makes over 100 recommendations and references not only the economic prospects for, and contributions of, small farms, but also notes the several types of public-interest values that derive from a structurally diversified ownership and operation of production in the agricultural sector. These include: stewardship of natural resources; contributing to the social and economic vibrancy of rural communities, promoting positive links between consumers and farmers, and providing entry into opportunities for entrepreneurship and self-employment free enterprise in the historical sense.

Principal findings include a serious level of erosion in the competitiveness of markets, particularly in inputs and processor/packer systems. The commission notes as well that many intervention programs are not, in effect, size neutral, even though their conceptual design makes this assumption.

A Time to Act defines small farms for purposes of setting the boundaries for its agenda. The commission's recommendations emanate from its various committees which focused on credit and finance, marketing, research and extension, and environmental issues, and its recommendations embrace these areas, although the format is somewhat different. I chaired the committee on research and extension and served as Vice Chair of the Commission. The report advocates more vigorous enforcement of antitrust laws and promotion of marketing alternatives. It strongly encourages USDA to revisit its mission, purpose, policies, programs and practices and proposes specific articulation of objectives with respect to research, extension, risk management, environmental programs, and program administration.

Desmond Jolly is an Extension Agricultural and Consumer Economist and Lecturer in Agricultural and Resource Economics, and Vice Chair of the National Commission on Small Farms. To obtain a copy of *A Time to Act* contact Dr. Jolly by phone at (530) 752-7774 or FAX (530) 752-7716.