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WAR CABINET

OFFICIAL COMMITTEE ON POST-WAR EXTERNAL  
ECONOMIC PROBLEMS AND ANGLO-AMERICAN  
CO-OPERATION

The International Regulation of  
Primary Products.

Note by the Secretary.

By direction of the Chairman I  
circulate herewith a new draft of  
U.S.E. (42) 21, "The International  
Regulation of Primary Products", -  
revised after consultations with  
officials from the Dominions.

(Signed) A. BASTER.

4/5, Richmond Terrace, S.W.1.  
18th January, 1943.

**SECRET**

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Revised December 1942.

## **THE INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.**

### **I.**

#### **PREFACE.**

AN international scheme to regulate primary products must be designed to promote the objects specified in the fourth and fifth points of the Atlantic Charter, which read:—

“Fourth, they will endeavour, with due respect for their existing obligations, to further the enjoyment by all States, great and small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world, which are needed for their economic prosperity.

“Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing for all improved labour standards, economic advancement and social security.”

2. Before the War, and especially in the 'thirties, primary producers suffered grievously from several causes:—

- (a) The prices of their products fluctuated violently within the same year, with the result that stock-holding became too risky for merchants and stocks tended to accumulate in the hands of producers.
- (b) They were subject to periodic slumps when prices fell below what could provide a reasonable standard of life.
- (c) Their relative inability, compared with industrial producers, to curtail output exposed them, even more than the latter, to the effects of fluctuations in demand, and the prices of their products tended to fall in relation to the prices of the final products which they were buying.
- (d) Their difficulties were aggravated in some important cases through excess capacity created by the subsidisation of high-cost production, which was doubly injurious because, being accompanied (as a rule) by tariff or other restrictions against lower-cost imports, it restricted consumption as well as increased supply.
- (e) As a result of all this, the general depression of the decade before the War produced outstanding instances of chronic surpluses, actual and potential, where the world's economic system failed to discover means to enjoy the full abundance of the earth.

The measures of regulation which were improvised to deal with particular cases of difficulty had varying degrees of merit. But it cannot be claimed for most of them that they were sufficient or satisfactory or successful.

3. The remedies for these evils, which we may hope to apply after the war, must take various forms. But, apart from general measures to control the trade cycle and to remove impediments to trade, they should include a direct attack on the problems of primary producers. The outlines of proposals to this end are discussed below. The details of any scheme must be governed by the special problems and requirements of the particular commodity in view. No plan can claim to be applicable to all commodities. Nevertheless, for a wide range of commodities certain general principles of operation can, it is suggested, be usefully prescribed and agreed.

4. Regulation Schemes can have either or both of two distinct objectives: (a) the moderation of excessive short-term fluctuations of prices about the long-term equilibrium price, and (b) the maintenance of long-term equilibrium between supply and demand at a price level which provides to the majority of the producers a standard of life in reasonable relation to the standards of the countries in which they live.

5. The extent of the evil to be remedied under the first objective can scarcely be exaggerated, though it is not always appreciated. In the absence

of regulation, a comparatively small excess of visible supplies, which has to be taken by an unwilling market, causes a disproportionate collapse of price, and an equally small deficiency of supplies causes prices to rocket upwards. A study of the violence of individual price fluctuations and the inability of an unregulated competitive system to avoid them (even when it is tempered, as it was in the case of rubber from 1934 onwards, by an International Regulation Scheme) is given in Appendix I. It is there shown that for the four commodities—rubber, cotton, wheat and lead—which are fairly representative of raw materials marketed in competitive conditions, the average *annual* price range over the decade before 1938 was 67 per cent. An orderly programme of output, either of raw materials themselves or of their manufactured products, is not possible in such conditions. If arrangements could be made by which temporary surpluses could be absorbed in a buffer stock and held firmly till they could be released to meet a subsequent increase of demand, the first objective would be met.

6. Buffer stocks have the purpose of steadying prices and are intended, as their name implies, to absorb shocks. By this means prices should be confined, if possible, within a reasonable range over short periods; provided, however, that they remain subject to gradual changes, those producers who find the ruling price attractive being allowed a gradual expansion at the expense of those who find it unattractive. We should aim at combining a short-period stabilisation of prices with a long-period price policy which balances supply and demand and allows a steady rate of expansion to the cheaper-cost producers. In this way we can hope to strike a balance between a reasonable measure of security to the producer and adequate provision for peaceful evolutionary change. The relative advantages between one source of supply and another are constantly shifting, owing to changes in public taste, technological advances, improved transport facilities to places formerly inaccessible and adoption of substitutes, natural or artificial. It may be advisable to retard these natural currents, but it would be a mistake, and probably futile, to resist them permanently.

7. If, however, ~~there is a persisting disequilibrium~~ <sup>there is a persisting disequilibrium</sup> which fails to respond to reasonable changes in the world market price, other means may be necessary to attain the second objective above, namely, to regulate the pace and violence of lasting changes and to mitigate the shock to producers who, through circumstances which they cannot control, find themselves losing their markets. Thus measures to stabilise prices may need on occasion to be supplemented by measures to ~~regulate the rate of transition~~ <sup>regulate</sup> to the new conditions and to restrict output meanwhile, so as to safeguard the standards of life of primary producers, as well as to ease the pains of change and progress. In the following plan carefully guarded proposals for restriction have, therefore, been added to the less questionable proposals for stabilising prices with which it begins. It is true that these run the risk of developing into chronic restriction of output. It remains to be seen, however, whether in the post-war world this will prove necessary over so wide a field as was thought necessary in the decade before the war. We may reasonably hope that the adequate stimulation of demand and the raising of nutritional standards and the standard of life generally will have the effect of taking up the slack and absorbing potential production. Certainly it will be a matter for great dissatisfaction if we should find it advisable deliberately to impoverish the world by checking a potential output of primary foodstuffs and other raw materials, whilst hundreds of millions of consumers go short of what they should have.

8. A complete scheme must endeavour to bring these two sets of arrangements, when both are required, into a consistent whole. In addition, a co-ordinating authority will be required to deal with difficulties arising between conflicting interests and to provide an adequate measure of conformity to a common pattern.

## II.

### THE OUTLINE OF THE PLAN.

#### 9. *The General Council.*

(i) A General Council for Commodity Controls shall be established, which each of the United Nations shall be invited to join as member States. Other States may be invited to join either at the outset or subsequently. A State may withdraw after adequate notice, say, two years.



(vii) More generally, it should be the function of the General Executive to receive periodic reports of their operations from each of the Commodity Controls, to review their condition, and, if necessary, to make recommendations as to the policy which they should follow. Such recommendations would have as their object the protection of the general interest, and especially the maintenance of a stable level of general prices and the control of the trade cycle.

(viii)—(a) A Commodity Control would be concerned with that part of output which is available for export. It is not proposed that either individual Controls or the General Executive should have any authority over the prices paid to producers or charged to consumers in respect of domestic output consumed at home, although they may make representations to the Governments concerned as provided in § 13 (iv) below. Nor are they given any powers, beyond the right to make representations under § 13 (iv), in respect of tariffs or subsidies which are part of the national policy of any member State. For whatever success may attend on efforts to raise nutritional and other standards, there must necessarily remain, at least for a long time ahead, a wide difference between the levels attainable in poorer and wealthier countries. It is necessary, therefore, that regulation schemes should be framed on lines which leave each country free to give subsidies, direct or indirect, to its own producers, in order to maintain their standard of living at the level which it considers proper.

(b) None the less, a serious difficulty arises if such subsidies are given on a substantial scale, especially if they are allowed to operate as export subsidies. For the effect of the subsidies is to maintain a larger volume of production in the countries giving them, and also, if the method of tariffs is employed, to restrict consumption, thus checking the redistribution of world demand in favour of the most economic producers. The network of governmental controls established in this way and responsive to no economic stimulus was in some cases one of the main reasons for the accumulation of surpluses. The effectiveness of any buffer stock scheme must, therefore, partly depend on the possibility of eliminating pre-war restrictions and securing general co-operation on the part of all Governments in policies directed to the expansion of consumption. Thus it is important to secure a general understanding that subsidies (direct or indirect) given by Governments to their own producers of those commodities which are the subject of control schemes, should be confined within moderate limits and limited to produce which is consumed, as well as produced, at home.

#### 11. *Buffer Stocks.*

(i) A Commodity Control may, with the approval of the General Executive, establish a Buffer Stock accompanied by provisions to stabilise prices within a certain range.

(ii) In this case the Control would establish an initial basic price on a uniform c.i.f. basis, and would offer to buy commodity at a price (say) 10 per cent. below the basic price and to sell it at a price (say) 10 per cent. above the basic price. The Buffer Stock should be prepared, save as hereinafter provided in § 11 (ix) and § 13 (vii), to take any supplies offered to it at the lower limit. The basic price would be modified by the Control from time to time thereafter by a process of trial and error with a view to keeping the size of the Buffer Stock within a defined range. If its own stock or world stocks were increasing beyond a stipulated figure, or at more than a stipulated rate, thus indicating that the price was unduly attractive to producers or unduly discouraging to consumers, the basic price would be reduced. Similarly, it would be raised if stocks were falling below a convenient level or at too fast a rate. For this purpose the Control would review the position, not only of its stocks, but also of total visible stocks throughout the world, and also the prospective supply. The Control could not view with equanimity a situation in which outside stocks were accumulating rapidly, even though its own were not. In other words, the object of the Control would be to discover by empirical methods a range of prices within which supply and demand would be in equilibrium when the influence of excessive short-period fluctuations on either side of the market had been smoothed away.

(iii) The basic price does not mean a single price, but a complex of prices, according to varieties of quality, of dates in relation to the crop year in the case of agricultural commodities, and to position relatively to the cost of transport to the ultimate consumer. It should not be technically difficult to fix the prices for the main categories of any commodity in proper relation to the basic price, provided discretion is allowed for variations in the differentials between grades; for such margins are already established by trade practice.

(iv) If the Commodity Control cannot agree an initial basic price acceptable both to a majority of the exporters and to the majority of the importers, this price shall be fixed by the General Executive at the level which, in their judgment, is calculated gradually to bring about a proper relation between supply and demand without regulation of output, provided that this price is not below "a reasonable international economic price" in the sense of § 13 (vi) below.

(v) If, either initially or later, it appears that unrestricted supply can only be absorbed at a price which falls below a "reasonable economic price," the procedure of § 13 shall be brought into operation, since the presumption will be that the price mechanism by itself is inadequate to establish a tolerable position.

(vi) The normal size of the Buffer Stock and its range of fluctuation would be fixed by the General Executive on the recommendation of the Commodity Control on the following general principles:—

(a) It should be larger for commodities subject to the fluctuations of the seasons or where experience shows that either supply or demand is particularly subject to sharp fluctuation or insensitive to price changes. Thus in the case of annual crops the normal stock should be at least large enough to replace any temporary deficiency caused by exceptionally poor harvests. In the case of other products, such as tree crops and minerals, where new production follows some years behind the initiation of measures to increase it, the stock should be sufficient to bridge at least part of the possible gap where there is a pronounced upward long-term trend in demand.

(b) For some commodities the maximum number of months' stock might have to be kept below the usual figure because of the necessity to turn over the stock and replace it frequently. In other cases, for example meat, the capacity and situation of refrigerated storage might be a limiting factor, unless canning or drying come to the rescue. For some tropical or semi-tropical products storage is possible at some stages of processing but not at others. The technique and facilities for storage may be expected to undergo continuing improvement, and the Controls could very properly finance development in this direction.

(c) Where there are physical reasons why the response of supply to the stimulus of increased prices is necessarily slow, it is important that the potential capacity should be in excess of normal requirements, and it may be advisable, therefore, to offer some inducement to maintain such extra capacity in existence. It would be the duty of an efficient Control to find ways of conserving and suitably rewarding a prudent margin of excess potential capacity, charging the cost of this to consumers as a whole.

(vii) The range between the Control's buying and selling prices, suggested above for purposes of illustration at 10 per cent. on either side of the basic price, need not be the same for every commodity and could be varied from time to time (and perhaps narrowed) in the light of experience. It might be found advisable to allow a wider range for some agricultural prices than for commodities not subject to the seasons. A study of the percentage deviations of crop yields from trend level in pre-war years suggests, however, that, even in the case of annual crops, a price range of 20 per cent. will normally be sufficient to allow a fair measure of stabilisation of producers' incomes for the world as a whole. It will not always effect this purpose within each separate country. But to do so lies essentially outside the scope of an international scheme, since it cannot be brought about consistently with a uniform international price. There is nothing to prevent individual Governments from operating within the international scheme, if they wish to do so, with a view to a further stabilisation of the incomes of their own producers.

(viii) When a revision of prices, either upward or downward, becomes necessary, the Control would aim at making such changes as small and gradual as possible. It would not be wise to lay down a hard-and-fast rule as to the maximum rate of such changes in advance of experience. It must partly depend on the stability of world conditions in other respects. The immediately previous movement of prices within the range above or below the existing basic price would also be relevant. But it is to be hoped that downward revisions, at any rate, would not normally exceed 10 per cent. within a year, and very gradual changes such as 2 per cent. would be a mark of successful management. Nevertheless, the Control should be free to alter its basic price at any time, and there should be

no absolute limitations on its discretion in determining the amount of the change, save that during a world depression, defined by suitable indices approved by the General Executive, it would not be permitted to reduce the basic price by more than 5 per cent. in one year.

(ix) Since it is of the essence of the scheme that price changes should be as moderate and as gradual as possible, it is necessary to provide the Control with some means to prevent the Buffer Stock from being quickly overwhelmed with offers if the effect of price changes works too slowly to give it the necessary protection. To facilitate this each exporting country shall have attributed to it a standard tonnage, to be fixed at the inception by agreement amongst exporters (or, failing this, by the General Executive) and subsequently equal to a moving average of its ~~actual~~ volume of net exports in the previous three or five years, subject to appeal to the General Executive by any exporter for revision on exceptional grounds. On the occasion of a reduction in price, designed to offset an excessive increase in the Buffer Stock, the Control shall be entitled at its discretion to fix a quota of the standard tonnages (the same proportion of his standard tonnage for each exporter), in excess of which no country shall export to any destination; and to limit its takings from an exporter to an amount (including his sales in the market) not exceeding his quota. So long as such quotas continue in force, the basic price shall be progressively reduced at a rate of not less than (say) 5 per cent. per annum—provided (as before) that this does not bring the price below "a reasonable economic level," in which case the procedure of section 13 shall be invoked.

(x) On the occasion of an increase in price, designed to offset a persistent tendency towards exhaustion of stocks in the hands of the Control, the Control shall, if it thinks advisable and the General Executive approve, attempt to organise and assist an expansion of additional capacity in the exporting countries most suitable for the purpose, either by reason of their being actual or potential low-cost producers or because they are deficit countries (or tending that way) in the books of the Clearing Union, or for reasons of a social and humanitarian character. The obligation of the Control to sell on the usual terms in relation to its basic price would, of course, cease with the exhaustion of its stocks. In time of scarcity, when such a situation was impending, some plan of allocating sales to importing countries might be required.

(xi) Some provision might be necessary to limit the Control's liability to be saddled with responsibility for holding stocks destined for domestic consumption in the country of origin. Thus deliveries at the producing centres should be accepted only at the Control's discretion and re-sales should not be made, unless the Control chooses, except on c.i.f. terms appropriate to some consuming centre. It has to be remembered, however, that a fluctuating part of domestic production enters into international trade, for which the Control would have to allow and which it should facilitate.

(xii) A Buffer Stock would not be applicable to highly perishable commodities and could only be undertaken in cases where the produce can be stored for a reasonable time. Even storable agricultural stocks would, however, require to be turned over from time to time, and, apart from its contractual buying and selling obligations, the Control would itself deal in the market or arrange with merchants so as to keep its stocks in motion where they might otherwise deteriorate, replacing old stock by new stock, without, however, modifying its total stock except as the result of its contracted sales and purchases. It might be free to hold a modest proportion of its stocks in the shape of futures, appropriately related in price to spot transactions, and it should ease market difficulties by changing the position of its stocks. A consuming centre might be allowed to attract stocks by offering to bear part of the cost of storage, provided it was not allowed, except by agreement, to bring within its jurisdiction an amount of total stocks out of proportion to its importance as a consumer. Generally speaking, the location of stocks should be as widely distributed amongst consuming and producing centres as climatic conditions for safe storage permit. But, in the case of "key" commodities, the Commodity Controls might be required to take into account arrangements made for the disarmament of the enemy powers.

(xiii) <sup>at full intervals of</sup> The Control <sup>and the control would</sup> would publish at frequent intervals full statistics of output, consumption and total stocks, including those held privately, and <sup>and all other</sup> other information useful to producers and consumers.

(xiv) Within these reasonably wide limits, free and competitive international markets would handle the trade, as they would in the absence of control; and there would be no objection to State trading by any country which preferred that

refers  
country

Members would  
be expected to  
maintain

method subject to safeguards against its use for non-economic purposes. The protection against excessive price fluctuations provided by the Control should allow merchants or State trading corporations to hold stocks and to operate with confidence within the determined range, and thus relieve the Control of a multiplicity of detailed operations in day-to-day business. The operations of traders within this range might effect, in practice, a further narrowing of normal short-term fluctuations except where an abnormal surplus or deficiency of current supply was clearly in prospect.

(xv) The profits arising out of the difference between the Control's buying and selling prices might be sufficient to pay for the costs of storage and management. If, however, they were inadequate for this purpose, a suitable levy should be added to the price of all exports to meet the expense. Any net profits earned by the Control should be employed to provide part of the fund for financing the stocks.

(xvi) Special provisions would be required during the initial period after the war when most products are likely to be in short supply, which the Controls must not aggravate by endeavouring to build up working stocks. Moreover, it would be undesirable that they should fix basic prices under the influence of temporary conditions which might be considerably too high in normal circumstances. On the other hand, the transitional period after the war, when supplies of many primary products will inevitably remain under official control for the time being, will offer a specially good opportunity for getting the Controls organised. The conclusion is that the Controls should be organised as soon as possible ~~after the conclusion of hostilities~~ and before the period at which they might be expected to enter into active operation. In the initial stages they would be accumulating information and statistics; and they should during this period endeavour to establish a common doctrine between producers and consumers regarding reasonable basic prices for the commodities which they would control. The General Executive would have a useful function to perform at this stage in correlating ideas about the relative prices of the commodities concerned. If these preliminary measures were carried through successfully, the individual Controls would be able to intervene on the downswing at points which would receive general approbation, and so underpin the market and give confidence to producers, whilst postponing their liability to sell on this basis until sufficient stocks had accumulated in the ordinary course of events. In any case, however, in which surplus export stocks already existed in the hands of Governments, a Control should be prepared to take them over at an agreed price, thus solving the problem of how to prevent the liquidation of such stocks from interfering with normal current output.

#### *The Finance of Buffer Stocks.*

12. We come next to the pivotal question of the finance of Buffer Stocks, for which large sums might be required if the system was extended to a number of commodities:—

(i) It would be preferable that the whole of the finance required by the several Controls should be consolidated in the hands of the General Executive who would be responsible for finding it, and that individual Controls should rely on the Executive and be subject to such limitations of finance as the Executive may determine.

(ii) The necessary finance being thus consolidated, it might be obtained through an International Commodity loan issued in blocks as required, secured on the Buffer Stocks valued at their basic prices, supplemented by a general levy (as in § 11 (xv) above) on all the commodities covered by the schemes in the event of the aggregate value of the stocks as a whole falling below the amount of the loans raised against them. Alternatively the capital of this International Loan might be defined in terms of the value of the composite commodity made up of the various produce composing the stocks, so that its commodity value would be conserved irrespective of changes in the commodity-value of money. In either case such a loan would be exceptionally well secured. It must be remembered that a large part of the finance required is not new, but is already provided from private or public sources. At the initiation, therefore, of any Buffer Stock Scheme, countries already holding and financing either surplus or normal stocks of the commodity in question might be invited, especially if they are credit countries in the books of the Clearing Union, to subscribe the sums thus released, or a part of them, to the Commodity Loan.



(iii) There would be great advantages, on the other hand, if the fluctuating margin of the finance could be handled through the account of the General Executive with the Clearing Union—on the assumption that this or some similar institution is set up. In this case the General Executive would hold an increasing credit balance with the Clearing Union in times of general boom when the Buffer Stocks were running off, and an increasing debit balance in times of general slump when the Buffer Stocks were accumulating. By this means a stabilising factor of major importance might be introduced into the world economic system. For purchasing power would be continuously withdrawn from the rest of the Clearing Union system during the development of boom conditions and would, on the other hand, be continuously augmented during the onset of a slump. The importance of Buffer Stocks as a measure contributory to the prevention of the Trade Cycle is developed in Appendix II below.

(iv) It should be a condition of assistance from the general pool of finance that a Commodity Control, which was badly managed or failed to keep its financial obligations within the prescribed limits, could be taken over by the General Executive and, if necessary, wound up. Any resulting losses would be met, like less avoidable losses, as provided in (ii) above, that is to say, by a general levy on the turnover of all the commodities covered by Buffer Stock arrangements.

it is  
(v) No estimate can be framed of the total volume of the finance which would be required, before we decide how wide a range of the staple raw materials of international trade the schemes will endeavour to cover, or without entering in detail in each particular case into the number of months' stocks it would be advisable to hold, or in advance of experience of the proportion of total stocks which the Controls would, in practice, be required to carry. An attempt has, however, been made to compile figures (highly approximate), so as to indicate the order of the magnitude involved, for eight principal commodities—wheat, maize, sugar, coffee, cotton, wool, rubber and tin—which are given in Appendix III. These figures show that the total value of a year's international trade in these commodities, taking the average volume over the years 1935-38, was about £700 million at the prices of 1939 and £950 million at the prices of 1942. A year's stock on this basis in the hands of the Control would be much too high; three months' would probably be too low—at any rate, the Controls must be prepared to hold more than this; and some figure intermediate between these extremes might be appropriate. A more comprehensive table taken from "The Network of World Trade" (League of Nations), also given in Appendix III, indicates that stocks equal to six months' exports of a wide range of primary products could be carried (at 1938 prices) with aggregate finance of (say) \$m 2,500. It must be repeated that by no means the whole of the necessary finance is *additional* to what would be required otherwise. Normal stocks must be held and must sometimes accumulate to abnormal amounts, even in the absence of Controls, and the finance for carrying such stocks has to be found from somewhere. For example, it is estimated that the stocks of the above eight commodities (very unequally distributed between them), including the domestic surpluses, likely to be held at the end of 1942, outside Russia and the enemy-occupied countries, are likely to be worth about £900 million at present prices, the finance for which is being found already.

#### *The Quota Regulation of Exports.*

13. A properly managed Buffer Stock scheme should prove effective in stabilising the position of the many commodities, where there have been considerable price movements corresponding to changes of market trends, without any evidence of chronic maladjustment. In drawing up the general regulations for such schemes it has, however, been necessary to recognise that cases will arise where the use of the price mechanism, aided only by Buffer Stocks, will be inadequate, because, if pressed to its logical conclusion, it may result in bringing the price appropriate to the state of supply and demand below a level which the producers can be expected to tolerate. If it is merely that the price mechanism works too slowly, the provision of § 11 (ix) above for the temporary quota-regulation of exports may be sufficient. But for an obstinate disequilibrium between supply and demand at a price level reasonably tolerable to producers we may have to fall back on the organised restriction of production by means of export regulation. Such schemes were characteristic of the decade before the war, and covered, with varying degrees of effectiveness, a wide range of commodities. Opinions differ as to how far the necessity for these schemes was just one of many symptoms of the extreme economic *malaise* of that period and how far they are an inevitable accompaniment of the wide differences of labour costs and of the

opportunity for diversification of output in different parts of the world. But there is likely to be general agreement that such schemes may prove to be necessary in the case of certain commodities even in the new circumstances; that any proposals for the international regulation of primary products must, therefore, provide for their possibility; and that careful precautions should be taken in handling an instrument which, if abused, is so liable to impoverish the world as a whole and waste its potential resources. For restriction schemes are a natural and indeed, an inevitable, sequel to the Buffer Stock proposals, in the event of the basic price necessary to secure equilibrium between supply and demand being below "a reasonable international economic price." It is the interpretation of this last phase which is the crux of all such schemes. This is not a difficulty created by the present proposals. It is inherent in any form of restriction which aims at a just balance between the claims of producers and of consumers. Our plan cannot be expected to do more than provide an impartial and authoritative body for its estimation, failing agreement between those chiefly concerned on the two sides of the world market. For the problem involves too many factors incapable of precise measurement for its solution to be safely entrusted to a formula. A large element of common sense and of general judgment in the light of all the known facts must be invoked in reaching a decision. The following is an attempt to combine effective regulation with adequate safeguards:—

(i) If a majority of the exporting Governments represented on a Commodity Control are agreed among themselves that the basic price appropriate to the prospective long-term state of supply and demand would be below a reasonable international economic price, they shall be entitled to apply to the General Executive (see § 10 (ii) above, where a scheme of regulation already exists), which shall also hear objections from consumers and minority producers, for permission to enforce quota regulation of exports.

(ii) In making this application the exporters shall state—

- (a) whether the importing Governments represented on the Control support or oppose the application and, in the latter event, the importing Governments shall be entitled to explain the grounds of their objection;
- (b) whether their proposal is due to causes which they regard as likely to be continuing or whether it is strictly temporary to allow a gradual transfer from high-cost to low-cost producers or from this particular product to an alternative product and, in the latter event, the measures proposed for bringing the restriction gradually to an end within a stated period;
- (c) if, on the other hand, the proposal is due to causes regarded as likely to be continuing, how far, in their judgment, the existence of over-production is to be explained by—

- (1) stimulation of exportable capability by subsidies or their equivalent in some of the exporting countries,
- (2) restriction of importing capacity by subsidisation of domestic production or by excessive prices to consumers through high tariffs or their equivalent in some of the importing countries,
- (3) uneconomic competition by substitutable commodities,
- (4) lack of opportunity on the part of some of the exporting countries to shift to alternative production more required by the world economy,
- (5) limitation of demand by the impoverished condition of potential consumers whose standards of living would benefit by increased consumption of the commodity;

(d) what variations of economic cost exist between different producers and on different scales of total output;

(e) the justification of the "economic price" they propose.

(iii) On such an application being made, provisional export-quotas, based on the procedure of § 11 (ix) above, shall come into force immediately, pending the decision of the General Executive on future policy.

(iv) Before approving a restriction scheme required for reasons regarded as likely to continue, the General Executive shall endeavour to deal with the radical causes of the problem. If reasons (1) and (2) have been adduced, they shall invite countries subsidising exports to reduce or abolish such subsidies,

and countries applying tariffs or other expedients for fostering home production, to abate them.\* If reasons (3) and (4) apply, they shall consult with the Commod Controls concerned with substitutable products or alternative production, with a view to diminishing any uneconomic competition (if its existence is proved) and to encouraging alternative production, providing, if necessary, financial and technical assistance to promote a shift in production. If the case for (5) is made out, they shall consider whether it is ~~advisable and practicable~~ to find some means of subsidising the consumption of the product in impoverished countries (in consultation as regards foodstuffs with a Nutritional Council, if there is such a body).

(v) If the exporters have not reached agreement amongst themselves as to their standard tonnages for the purpose of the scheme, these shall be fixed by the General Executive, which shall pay attention, amongst other considerations, to the proportionate share of the export trade on the average of the previous three (or five) import years. In any case, when restriction is in force, the General Executive shall be entitled to diminish the standard progressively of any country which subsidises exports, especially if this is not combined with control of production; and to increase the standard of any country which is a deficit country in the Clearing Union or which is a relatively low-cost producer or which has special difficulties in producing alternative output.

(vi) If the Commod Control cannot agree a basic price under restriction acceptable both to a majority of the exporters and to a majority of the importers, this price shall be fixed by the General Executive at the level which, in their judgment, corresponds to "a reasonable international economic price." In fixing this price, the Executive shall have primary regard to the level which would provide the average (not the marginal) producers of three-quarters of the exporting countries, weighted according to their standard tonnages, with a standard of life in reasonable relation to the general standards of the country in which they live, and, where these standards have been low, shall err in the generous direction with a view to their gradual improvement. Subject to this, they shall aim at a level calculated gradually to bring supply into proper relation to demand without restriction; but, on the other hand, they shall also pay attention, especially in the case of wasting assets such as metals, to the price which may be expected to conserve potential capacity and to maintain and, if necessary, increase output in succeeding years to correspond to prospective demand. They shall aim at levels which are not excessively out of line with the prices of possible substitutes or are likely, for any other reason, to react adversely on consumers' demand. In general, they shall be influenced by a regard for the best long-term interests of producers, provided no injustice or monopoly exaction is allowed against consumers.

(vii) When the basic price under restriction has been fixed, there is no reason why the operations of the Buffer Stock should not continue as before—but with this important difference. With free output the price was the variable element by which the takings of the Buffer Stock were controlled. With restricted output the range of price becomes fixed, and the quota of restriction becomes the element which the Buffer Stock Control must be free to vary. In this respect the plan would differ from most of those which have been operated hitherto, since quota restriction, whilst it aims at securing an economic price, has carried no guarantee of this price, so that, if demand falls below what was expected when the quota was fixed, the producer may suffer from restriction without the compensation of a tolerable price. It seems to be better to make the basic price, rather than the quota, the primary determinant fixed with the approval of the General Executive, leaving the quota to be handled empirically by the Buffer Stock Control, so as to keep the volume of stocks within an appropriate range as well as the price within the fixed limits.

(viii) The duration of a restriction scheme shall not exceed 5 years in the first instance and, if it is renewed on the ground that there is still serious over-supply, the basic price for the next period of 5 years shall be reduced by the General Executive unless special reason can be shown by the Control to the satisfaction of the General Executive, either on account of changes in other prices or because a major factor causing the need for a continuation of restriction is the high level of subsidy or protectionism in importing countries.

(ix) The details of a restriction scheme not covered by the above, particularly the sanctions necessary to enforce it, shall be subject to the approval of the General Executive.

\* In Appendix IV illustrations are given, for wheat and sugar, to show how much scope there is for better international practice in these respects.

## III.

## CONCLUSION.

14. We do not disguise from ourselves that the constructive proposals set forth above are conceived in a spirit of hopefulness which may be disappointed. They assume a measure of international discipline and good-neighbourliness and, in general, a readiness of Governments to accept proper standards of international behaviour which did not exist before the war. They also depend on the effective substitution of an expansionist for a contractionist pressure on world demand through the better management of the supply of international money. Yet a better ordering of our affairs may not be so difficult as it looks if we tackle it boldly. The gluts which have disorganised production in the past have been small in relation to actual output and still smaller in relation to potential demand, and the disorder they have caused has been disproportionate to its origin. It is not true that the impulse of individuals to toil and to produce exceeds their readiness to enjoy and to consume, or that we have reached standards of life so high that our concern should be to hold back output and curb the bounty of nature. It is, rather, the task of this generation to devise, by taking thought, an organisation which allows escape from an insane paradox by bringing production and consumption into a fruitful union.

## APPENDIX I.

*The violence of individual price fluctuations and the inability of an unregulated competitive system to avoid them.*

WIDE fluctuations in the prices of raw materials between general boom and depression and between years of exceptional abundance and scarcity for particular commodities are well understood. But superimposed on those broad swings there are disturbing short-term fluctuations on a surprising scale, which are apt to be concealed from those who only watch the movements of index numbers and do not study individual commodities; since index numbers, partly by averaging and partly by including many commodities which are not marketed in fully competitive conditions, mask the short-period price fluctuations of the sensitive commodities.

The results of an enquiry made in 1938 into the price fluctuations of rubber, wheat, lead and cotton will provide an illustration. This enquiry examined by what percentage the highest price in each of the last ten years exceeded the lowest price *in that year*:—

*Rubber.*—There was only one year in the decade before 1938 in which the high price of the year exceeded the low by less than 70 per cent. The average excess of the year's high over the year's low was 96 per cent. In other words, there was on the average some date in every year in which the price of rubber was approximately double its price at some other date in that year.

*Cotton.*—Since rubber may be regarded as a notoriously fluctuating commodity, in spite of its having been subject to an organised restriction scheme, let us consider cotton. Only twice in those ten years did the high price of the year exceed the low by less than 33 per cent., and the average excess of the year's high over the year's low was 42 per cent.

*Wheat*, however, was nearly as fluctuating in price as rubber, which may be a surprise. If we take the Liverpool contract as our standard, there was only one year in the decade when the highest price of the year exceeded the lowest by less than 47 per cent.; and the average excess of the year's high over the year's low was no less than 70 per cent.

*Lead* is mainly marketed by a small number of powerful producers acting with some measure of consultation. Yet, even so, the annual range of price fluctuations was on much the same scale as with the commodities already examined. Only twice in the ten years was the price range from lowest to highest less than 35 per cent., and the annual average was 61 per cent.

Thus for these four commodities—rubber, cotton, wheat and lead—which are fairly representative of raw materials marketed in competitive conditions, the average *annual* price range over the decade before 1938 was 67 per cent. An orderly programme of output, either of the raw materials themselves or of their manufactured products, is scarcely possible in such conditions.

There is a good theoretical explanation of this unfortunate state of affairs. It is an outstanding fault of the competitive system that there is no sufficient incentive to the individual enterprise to store surplus stocks of materials beyond the normal reserves required to maintain continuity of output. The competitive system abhors the existence of buffer stocks, which might average periods of high and low demand, with as strong a reflex as nature abhors a vacuum, because such stocks yield a *negative* return in terms of themselves. It is ready without remorse to tear the structure of output to pieces rather than admit them, and in the effort to rid itself of them; which should be no matter for surprise because the competitive system is in its ideal form the perfect mechanism for ensuring the quickest, but at the same time the most ruthless, adjustment of supply or demand to any change in conditions, however transitory. It is inherently opposed to security and stability, though, for the same reason, it has the great virtue of being also opposed to stability in the sense of stagnation. If demand fluctuates, a divergence immediately ensues between the general interest in the holding of stocks and the course of action which is most advantageous for each competitive producer acting independently.

There are several reasons for this. The cost of storage and interest is fairly high, especially in the case of surplus stocks which strain the capacity of the normal accommodation. Reckoned *ad valorem* there is a wide range of storage costs between different types of commodities, from (say) 5 to 25 per cent. per annum. In the case of many commodities, however, the charges are probably in

the neighbourhood of 10 per cent. per annum;\* whilst the length of time for which holding will be necessary and the ultimate normal price are both matters of great uncertainty. The costs of centralised storage schemes, especially if interest charges can be kept at a minimum, should be very much lower.

There are, however, two other still more dominating factors. Experience teaches those who are able and willing to run the speculative risk that, when the market starts to move downward, it is safer and more profitable to await a further decline. The primary producer is, as a rule, unable or unwilling to hold, so that, if the speculative purchaser holds back, he will get the commodity still cheaper. Thus, even if it would pay him to buy at the existing price on long-period considerations, it will often pay him better to wait for a still lower price. The other factor arises out of the lack of incentive to the retailer or the manufacturing consumer to purchase in advance. By purchasing in excess of his immediate needs he may make a speculative profit or loss just like any outside speculator, but as a trader or a manufacturer his position will be competitively satisfactory when the time comes to use the materials, provided he is paying the *current* price. Thus a cautious user would rather pay the current price for his raw materials on which his own selling prices are based than run a speculative risk; and this attitude is reinforced by the fact that his interests are already bound up with activity in the demand for the commodity in question, so that he is multiplying unnecessarily the same kind of risk if he buys his material in advance of his needs. On the other hand, the long-term holding power of the outside speculator is limited—most participants in the market being more interested in a rapid turnover—and can only be called into action on a sufficient scale by a drastic fall in prices which will curtail current output substantially and appears to be a long way below any probable normal cost of future production. This adjustment of prices has to be all the more violent because, for a variety of technical and social reasons, both the consumption and the production of primary products have become increasingly insensitive to changes in their prices; and it is all the more disastrous because the tendency of international trade is to make many countries increasingly dependent on individual crops, for which they are specially suited, so that the social consequences of large movements in the prices of these specialised products are severe and the dangers of instability are enhanced.

The violent price fluctuations, which we have learnt to accept as normal, besides their adverse effect on trade stability, also impose obstacles to the holding of an adequate *quantity* of stocks, the eventual effects of which are not less injurious. For, although the difficulty of rapidly altering the scale of output, especially of agricultural crops, leads to what appear to be large stocks at the bottom of the market, nevertheless, when the turn of the tide comes, stocks turn out to be insufficient for the reason that it is just as difficult rapidly to increase the scale of delivered output as it had been to diminish it. Prices rush up, uneconomic and excessive output is stimulated and the seeds are sown of a subsequent collapse.

While the sufferings of primary producers resulting from this instability are by now generally appreciated, it is not so fully recognised that violent fluctuations on world markets are to an important, though less, extent transmitted right through to the consumer. Statistical investigation of the degree to which this is true is practicable only on a limited scale since there are relatively few products having the required simplicity of raw-material content. Perhaps the best example for the purpose is bread; and it has been found that, over the decade to 1938, the retail price of the loaf in this country fluctuated almost as widely, though of course not so frequently, as the cost of the equivalent amount of wheat on the world market. Butter and cheese are more suitable than most things for similar investigation and here, too, the same conclusion holds good in only slightly less degree. Many of the more elementary foodstuffs, admittedly, are by reason of perishability non-susceptible to treatment by a scheme involving the maintenance of buffer stocks; but even these would acquire some secondary stability from greater steadiness in the cost of animal feeding-stuffs. So far as the plan helped, directly or indirectly, to keep the consumer-cost of staple foods on an even course it would diminish the force of a powerful element in public unrest and simplify the processes of wage negotiation and social policy generally.

(\* Mr. Benjamin Graham in his book on *Storage and Stability* (p. 108) estimates the average commercial cost to dealers in the commodity exchanges of storing 23 standard raw materials at 13½ per cent. of their value per annum, exclusive of interest, whilst he considers that organised Government storage could be provided at a quarter of this cost. His estimate of the commercial cost is considerably higher than the above, which is intended to include interest, but his average is considerably affected by the exceptionally high *ad valorem* cost of storing maize, oats and petroleum.

## APPENDIX II.

## BUFFER STOCKS AS A MEASURE CONTRIBUTORY TO THE PREVENTION OF THE TRADE CYCLE.

15. Superimposed on the fortuitous short-period price swings affecting particular commodities and particular groups of producers there is the fundamental malady of the Trade Cycle. Fortunately, the same technique of Buffer Stocks, which has to be called into being to deal with the former, is also capable of making a large contribution to the cure of the Trade Cycle itself.

16. At present a falling off in effective demand in the industrial consuming centres causes a price collapse, which means a corresponding break in the level of incomes and of effective demand in the raw material producing centres, with a further adverse reaction, by repercussion, on effective demand in the industrial centres; and so, in the familiar way, the slump proceeds from bad to worse. And when the recovery comes, the rebound to excessive demand, through the stimulus of inflated prices, promotes, in the same evil manner, the excesses of the boom. But if the Commodity Controls are in a position to take up at stable prices the slack caused by the initial falling off in consuming demand, and thus to preserve some measure of stability of incomes in the producing centres, the vicious cycle may be inhibited at the start; and again, by releasing stocks when consumption recovers, the Commodity Controls can prevent the inflation of raw material prices which carries the seeds of an incipient boom.

17. The very fact that in the aggregate large sums of money may be involved in such storage schemes, though it aggravates the technical and financial problems, is of positive assistance when we come to the handling of the Trade Cycle. For we have at our disposal a weapon capable of producing large effects by rapid action, and of operating in the negative as well as in the positive direction, so that it can function as a stabilising factor both ways. By taking up or by releasing stocks, the complex of Commodity Controls can operate in both directions on a scale and with an immediacy which is quite impossible for projects of public works. Organised public works, at home and abroad, may be the right cure for a chronic tendency to deficiency of effective demand. But they are not capable of sufficiently rapid organisation (and, above all, they cannot be reversed or undone at a later date) to be the most serviceable instrument for the prevention of the Trade Cycle. Buffer Stock Controls to deal with the epidemic of intermittent effective demand are therefore the perfect complement of Development Organisations (or International T.V.A.) to offset a deficiency of effective demand which seems to be endemic.

18. Closely associated with this advantage is another one of scarcely less importance, namely, that by this means the raw material stocks of a producing country are rendered always liquid. A producing country is always paid for its output at or above a reasonable minimum price, whether or not the whole of this output passes immediately into consumption, and paid for it *in liquid cash*, which it can employ on maintaining its normal volume of imports and its normal standard of life, thus retaining its own stability and being no longer the occasion, by repercussion, of instability in others. There can be no question that the scheme proposed would be of the very greatest value to raw material countries, especially to those which are financially weak, with overseas debt and lacking in reserves or are highly specialised in their produce.

## APPENDIX III.

*World Trade Valued.*

Commodity.	1935.	1936.	1937.	1938.	Average, 1935-38.	Price* per long ton in 1942.	Value of 1935-38 Average at 1942 Price.	Price per long ton in August 1939.	Value of 1935-38 Average at 1939 Price.
	World Net Exports.† (000 metric tons.)					f.o.b	£mn.	f.o.b.	£mn.
Wheat ... ..	14,750	14,500	15,300	15,000	14,900	£ 8.2	120	£ 7.1	104
Maize ... ..	9,000	10,000	13,000	9,000	10,250	3.2	32	4.8	48
Sugar ... ..	9,650	10,000	10,500	10,500	10,200	12.4	124	9.5	95
Coffee ... ..	1,610	1,630	1,550	1,800	1,650	70.3	114	28.5	46
Cotton ... ..	2,650	2,900	3,000	2,540	2,770	$\frac{3}{4}$ at £100 $\frac{1}{4}$ at £70	252	54	147
Wool ... ..	950	940	880	940	930	$\frac{1}{2}$ at £168 $\frac{1}{2}$ at £130	136	$\frac{1}{2}$ at £168 $\frac{1}{2}$ at £130	136
	World Absorption. (000 long tons.)						778		576
Rubber ... ..	936	1,038	1,095	934	1,000	c.i.f. £112	115	£79.3	79
	World Consumption. (000 long tons.)								
Tin ... ..	150	160	199	160	167	c.i.f. £275	46	£225	38
Totals of above values ... ..	...	...	...	...	...	...	939	...	693

\* Ministry of Food and Ministry of Supply f.o.b. programme prices except rubber and tin, for which approximate United Kingdom c.i.f. prices.

† Average of total net exports and total net imports as shown in *Year-book of International Institute of Agriculture*.



*World Exports of Twenty-Six Products in 1938 in \$ (000,000's)(a).*

Products.	United States.	Latin America. (b)	Continental Europe.	United Kingdom and Ireland.	British Dominions and India.	British Colonial Empire.	French Oversea Territories.	Netherlands Oversea Territories.	Rest of World.	Total.
Cotton	224	78	17	...	88	37	2	...	154	600
Coal	56	...	242	183	10	2	4	1	32	530
Crude petroleum	112	298	5	...	...	7	...	8	23	448
Wheat	78	59	77	18	171	1	16	...	40	442
Wool	...	83	42	4	277	3	6	...	6	455
Petrol...	122	12	40	...	...	53	...	115	48	394
Tobacco	156	17	121	...	12	11	2	20	20	359
Sugar...	3	121	36	13	28	43	12	25	59	340
Copper	87	70	55	2	48	44	...	...	19	325
Butter	1	3	164	11	121	2	...	...	2	304
Gas and fuel oil	56	17	19	3	...	17	...	122	64	298
Rubber	...	5	...	...	1	176	18	74	13	287
Coffee...	...	225	2	...	1	8	11	7	9	263
Beef, lamb, mutton...	1	109	14	2	92	1	2	...	1	222
Maize...	95	57	24	...	12	2	16	...	14	220
Pork	17	4	136	14	43	...	...	...	2	216
Tea	...	...	...	...	87	62	1	31	21	202
Rice	8	2	15	...	86	10	30	...	46	197
Iron ore	2	4	116	...	4	9	11	...	3	149
Silk	...	...	8	...	...	...	...	...	116	124
Wheat, flour	23	4	30	9	41	1	4	...	15	127
Tin (metal)	...	1	32	12	7	55	1	...	9	123
Citrous fruit	20	7	42	...	6	21	2	...	5	103
Total (23 products)	1,061	1,171	1,237	271	1,135	565	138	409	721	6,708
Exports of all goods	3,057	1,738	8,065	2,393	2,389	881	455	562	2,284	21,824

(a) As it did not prove possible to calculate "frontier values" for exports of individual articles the figures in this table represent recorded values. The "frontier values" of certain of the products of the United States and the group "British Dominions and India" would be slightly higher than indicated.

(b) Excluding overseas territories of the United Kingdom, France and Netherlands.

*Distribution of Trade in Certain Oilseeds and Vegetable Fatty Oils in 1938.*

Product.	World exports \$(000'000's).
Six oilseeds (fat content) (a) ... ..	318
Eight vegetable oils (b) ... ..	149
<b>Total, six oilseeds (fat content) and eight vegetable oils</b>	<b>467</b>

(a) The oilseeds considered are linseed, groundnuts, palm kernels, copra, soya beans, cottonseed. The fat content is calculated on the basis of the following percentages: groundnuts, 28 per cent.; palm kernels, 45 per cent.; copra, 63 per cent.; soya beans, 14 per cent.; cottonseed, 15 per cent.; linseed, 33 per cent.

(b) Linseed oil, olive oil, groundnut oil, palm oil, palm kernel oil, coconut oil, soya bean oil and cottonseed oil.

*Distribution of Trade in Certain Fertilizers in 1938.*

Product.	World exports \$(000,000s.)
Nitrates of sodium, calcium and ammonia ... ..	57
Sulphate of ammonia ... ..	38
Natural phosphates ... ..	46
Basic slag ... ..	12
Superphosphate ... ..	11
Potash fertilizers ... ..	55

APPENDIX IV.

IN the case of many agricultural commodities uneconomic production has been stimulated by Government action, supported by subsidies and protection; the result of this is—

- (i) to develop a chronic surplus capacity in the world as a whole;
- (ii) to maintain high prices in many of the consuming markets and consequently to restrict consumption;
- (iii) to restrict the volume of international trade and to depress the open-market prices.

For example, as regards wheat, in 1934, the world market price c.i.f. Liverpool was about 5s. per cwt.; the import duties in force were: in France 10s. 1d. per cwt.; in Italy 12s. 4d.; in Germany 18s. 11d.; even in countries like Czechoslovakia and Austria, the duty was over 5s. per cwt.; and the internal price in France was 15s. 6d. per cwt., and in Italy and Germany about 14s., or about three times the world market price. The maintenance of this high internal price tended to restrict consumption, but stimulated production, until these countries were self-supporting and, in the case of France, developed an export trade in wheat. The world market was correspondingly contracted and the open market price fell to levels unremunerative to any producer.

The case of sugar is even more striking. The open market price c.i.f. United Kingdom, ex duty, averaged 4s. 8d. per cwt. during the three years 1934-36. Java, Peru and other economic producers, dependent largely on the world market, could just afford to maintain production at this price, but their production had to be severely restricted and the markets open to them were constantly declining, till they supplied less than 20 per cent. of the world consumption. Sugar was grown in other countries under every variety of protection and preference at all sorts of higher prices. The United States grew a quota of beet sugar at home and gave a protected market to the Philippines and a preferential market for a quota of Cuban sugar. The United Kingdom grew a quota of beet sugar at home and gave a preferential market to Empire sugar at

much above the world price.\* Australia sold her cane sugar production at home at 23s. to 24s. a cwt. and exported a substantial quantity to the United Kingdom at the Empire price. But it was the subsidised production of beet sugar, above all, which disorganised the market. Out of a total world production of about 28 million tons, over 10 million tons represented the amount of beet sugar, produced in almost every case on the basis of a subsidised price much above the open market price. Moreover, the European beet sugar industries produced not only sufficient for home requirements, but also considerable quantities for export. The retail price in most European countries was determined, not by the open market price, but by the cost of subsidised production, on top of which was often added heavy taxation for revenue purposes; and total consumption in the different countries varied inversely with the retail price, *e.g.* :—

	Consumption per head (in kilog. per annum). 1935-36.	Retail price (pence per kilog.) 1935-36.
Denmark ... ..	55·9	4·6
Sweden ... ..	48·8	4·5
Great Britain ... ..	47·8	5·0
Finland ... ..	29·7	6·9
Norway ... ..	31·9	7·0
France ... ..	25·1	7·6
Germany ... ..	23·4	15·0
Hungary ... ..	10·55	11·4
Italy ... ..	7·9	15·9

If subsidies and taxes were limited retail prices could be reduced and consumption would expand. Unless the reduction of subsidies was considerable this would not directly help the economic producers, as they would still be unable to compete with the subsidised home industry, but indirectly it would do so as the additional outlet on the home market would tend to decrease subsidised exports and thus increase outlets for economic production on the world market. Without some such increase of home consumption in the beet sugar countries or some reduction of their subsidised production, the outlet on the world market for economic producers shrinks continually and the dumping of subsidised sugar depresses world prices to levels which are unprofitable, even to economic producers. None of the subsidising countries is likely to accept the simple abandonment of their subsidised production. The best that can be hoped for is that they will limit it to some agreed production quota on condition that total supplies are kept in reasonable relation to effective demand. The situation would be still further improved if general agreement could be reached that any subsidies given to domestic producers should be financed by the budget and not passed on to consumers by means of import tariffs or controls, as in that case the consumer would get the benefit of world prices and consumption would expand.

(\* In 1937-38, the United Kingdom sugar supplies were obtained as follows :—

	Tons.	Price per Cwt.	
		s.	d.
Foreign ... ..	509,000	5	5
Other Empire ... ..	824,000	9	2
Colonial certified ... ..	357,000	10	2
Home-grown beet ... ..	418,000	18	10

(excluding assistance given to beet sugar industry which represented in 1936-37 5s. 3d. a cwt.)