

OFFICES OF THE WAR ECONOMY

10, QUEEN'S TERRACE

WHITEHALL, S.W.1

3rd June, 1942.

Dear Harrod.

Hopkins informs me that he sent you a draft memorandum on the International Regulation of Primary Products some time ago. The latest edition of this paper is to be discussed at the next meeting of my Official Committee on Post-War External Economic Affairs and Anglo-American Co-operation on Friday week, 12th June, at 11 a.m., and I should be very glad if you could find time to be present at this discussion and help us with your advice. I understand some provisional enquiries were made about the time of the meeting, which appears to be convenient to you.

I enclose a copy of the memorandum from the Treasury, Hopkins' covering letter and a formal notice and agenda of the meeting.

Yours sincerely
A. H. H.

R. F. Harrod, Esq.,
Prime Minister's Statistical Branch,
Great George Street, S.W.1.

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S E C R E T

U.S.E.(42) 2nd Meeting.

COPY NO. 22

WAR CABINET

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

The next meeting of the Committee will be held
on Friday, 12th June, at 11 a.m., in the Conference Room,
Office of the Paymaster-General, Richmond Terrace, S.W.1.

A G E N D U M

Memorandum on "The International Regulation of Primary
Products" (circulated as U.S.E. (42) 10.).

(Signed) A. BASTER,
Secretary.

Richmond Terrace, S.W.1.

2nd June, 1942.

M. S. M. M.

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S E C R E T

U.S.E. (42) 10.

COPY NO. 42

2ND JUNE, 1942.

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 memorandum by the Treasury on "The Inter-
national Regulation of Primary Products," and a
covering letter from Sir R. Hopkins.

(Signed) A. BASTER,
Secretary.

Richmond Terrace, S.W.1.

2nd June, 1942.

Treasury Chambers,
Great George Street,
S.W.1.

1st June 1942.

Dear Hurst,

The shorter Note on External Monetary and Economic Policy mentioned in paragraph 18 that a plan was under consideration for an international organisation for steadying the prices of primary products and the holding of buffer stocks.

A suggested plan was drawn up in the Treasury and I sent it for criticism and consideration to a number of departments, etc. namely:

Board of Trade
Ministry of Agriculture
Ministry of Food
Dominions, Colonial and India Offices
Economic Section
Sir Frederick Leith-Ross
Sir William Palmer
Mr. Harrod
Mr. Ronald

Replies came back from nearly all. The replies contained numerous suggestions and criticisms of detail most of which have been incorporated in a revised draft which I send herewith.

Sir Frederick Leith-Ross made more fundamental criticisms, with which the Ministry of Agriculture have associated themselves. These criticisms were directed to the insufficient treatment of quota-regulation in the draft as circulated. Sir Frederick Leith-Ross held that over a wide field quota-regulation is likely to be necessary and that no scheme which overlooks this is likely to be satisfactory.

An attempt has been made to meet this criticism by considerable additions and amplifications, chiefly in paragraphs 15 and 16, of the revised draft but also throughout. The passages which are substantially new or significantly altered have been indicated in the margin.

If I were now to send this revised draft to the departments above mentioned before referring it to you, a good deal of time might be taken in further discussion with the result that if American representatives come here at an early date, there might not be time for your Committee to take the matter up as it might wish to do.

Accordingly the best course seems to be that I should send you this revised draft with the suggestion that you should circulate it with this covering note to your Committee enlarged as necessary for the purpose, and that you should then take charge of the further discussion of the whole question.

Yours sincerely,

R.V.N. HOPKINS.

THE INTERNATIONAL REGULATION OF PRIMARY PRODUCTS

I

Preface

1. Any 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. Proposals which the United Kingdom and the United States of America may agree jointly to sponsor must be of a nature to commend themselves as reasonable and fair to third parties. It is essential to avoid any imputation that the two Governments in question are working together to further selfish ends or to perpetuate a questionable status quo.

3. A scheme of International Regulation of primary products must aim at striking a balance between promising a reasonable measure of security to the producer and making adequate provision for peaceful evolutionary change. The relative advantages as 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, adoption of substitutes, natural or artificial, and so on. It is not right to fight against these natural currents. Governments should rather concert means for mitigating the shock to producers who, through circumstances

which

which they cannot control, find themselves losing their markets. Buffer stocks, as their name implies, are intended to absorb shocks. They also have the purpose of steadying prices. To achieve the whole object, however, more than this is necessary. There must be a close interdependence between one Commodity Control and another, with probably some superimposed coordinating authority. There must also be an adequate measure of conformity to a common pattern as between the various controls. Only in this way can some semblance of order be introduced if the primary producer of one commodity loses his market and some alternative form of economic activity has to be found for him.

4. Commodity Controls must be recognised as being instituted not from some profit motive, but to ensure that the necessary changes in the scale and distribution of output should take place steadily and slowly in response to the steady and slow evolution of the underlying trends. It must be made clear that the object of the Controls is not profit but ^{stable service} ~~service~~. The world as a whole wishes to get away from the old ideas of monopoly and restrictive cartels, - at least where Government-sponsored activities are concerned. World opinion to-day desires above all to evolve a state of society in which ~~definite essential tasks are allotted and~~ necessary services rewarded on a regular and equitable scale.

5. The Controls should be conceived of largely as correctives. Their intervention should not be at a constant level of pressure: they should only ~~exert~~ ^{exert} maximum pressure when this is needed to ~~correct~~ ^{restore} a balance, or when simultaneous action by two or more Controls is necessary. They should only intervene actively when they feel it necessary that some check should be imposed on the unregulated development of new sources of supply. The Controls should however regard themselves as continuously responsible for the maintenance of order and the inculcation of a sense of mutual interdependence. It will be fatal if their activities come to be regarded as synonymous with the permanent strangulation of local economic initiative. There must be no suggestion that the Controls

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are aimed at the permanent exclusion of the low-cost producer, still less to deprive efficiency of its due rewards. The object of the Controls should be to regulate the rate at which new sources of supply should be drawn on in such a way as to promote the expansion of full employment and consumption and to minimise the shocks to efficient producers who may be losing their markets. Rules for the Controls' constitution must therefore be highly flexible, as indeed also the provisions determining their membership at any given time.

6. The problem of regulation has two aspects - Stabilisation and Restriction. In its first aspect it aims at limiting and smoothing out the short-term fluctuations of price which in the past have been disastrous to the operations of producers and consumers alike. In its second aspect it aims at securing an economic price and a gradual transference of trade in cases where it would appear likely that otherwise over-production would inevitably involve producers generally in prolonged distress. The treatment of the two aspects must be closely associated in practice. But for the purposes of exposition paragraph 14 of Section III below is primarily concerned with the first and paragraph 15 with the second; whilst in paragraph 16 an attempt is made to marry the ideas of buffer-stock regulation and quota regulation.

7. Stabilisation of short-term prices, subject to gradual changes in accordance with long-term trends, is wholly to the good. But lasting, as distinct from temporary, restriction of output can seldom be in the general interest of the world as a whole; and must be the symptom of a malady, which should be cured rather than endured, either local in the shape of mis-directed production, or general as a result of deflationary pressure and depressed demand. It remains to be seen whether chronic restriction of output will be required in the post-war world over so wide a field as was becoming necessary in the miserable decade before the war. We may reasonably hope that

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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 over a wide field. Certainly it will be a matter for great dissatisfaction if we should find it advisable deliberately to impoverish the world by forbidding a potential output of primary foodstuffs and other raw materials, whilst hundreds of millions of consumers ^{and} go short of what they should have. Nevertheless the organisation of the world economic structure so that chronic gluts do not occur will present the gravest difficulties. We must be prepared for failures in particular directions and for progress in general which is only gradual. Provision is made, therefore, for organised restriction of output subject to certain safeguards, if and when there are convincing reasons that it is necessary. Indeed some provision on such lines is required, apart from the risk of chronic gluts, in order to deal with difficulties in changing the main sources of supply which, although they are not permanent, cannot be dealt with satisfactorily merely by short-term methods.

II

The Internationalisation of Vice-President Wallace's
"Ever-normal Granary" to provide buffer stocks and steady prices.

8. One of the greatest evils in international trade before the war was the constant and wide fluctuation in the world prices of primary products, i.e. raw foodstuffs and industrial raw materials. The reason for this fluctuation was the constant divergence between the short-term apparent demand and the supply of these commodities. The true demand for primary products is not, of course, absolutely constant, but a progressive average with a base of, say, three or four years carried forward from year to year would, in the great majority of cases, show a fairly constant figure with long-term trends upwards in the case of some materials and perhaps downwards in the case of others. ~~xxxxxx~~ With foodstuffs, the demand is often constant, even over shorter periods, but ~~xxxxxxxxxx~~ with industrial raw materials the fluctuations are greater owing to changes in the rate of industrial
activity.

activity. The apparent international demand as shown by purchases of new supplies in the world markets, fluctuates much more widely since it is affected not only by fluctuations in true demand but also by the stocking and de-stocking operations both of users of raw materials and of merchants whose business it is to deal in them and of speculators who enter and leave the market as and when they see an opportunity for making a profit. The primary purpose of control is to prevent these wide fluctuations and to allow trade to proceed in an orderly fashion. This does not mean that all prices of primary products shall be fixed for an indefinite period but it does mean that such conditions shall be established, that alterations shall be gradual and determined by long trend variations in true demand and the response of supply to them.

9. Theoretically there are two alternative methods of achieving this purpose. One may be described as Stabilisation. That is, the creation and operation on an international basis of buffer stocks large enough to counteract short-term disparities between supply and demand due either to a temporary divergence between apparent and true demand, or short-term excesses or deficiencies in supply (especially those arising from unusual bounty or niggardliness of nature), while leaving the field free for the long-term adjustment of supply to demand by long-term price variation. The other may be described as the regulation of supply by fluctuating quotas of output, associated, generally speaking, with Restriction. A quota system may sometimes be a necessary accompaniment of stabilisation, but the experience of the last ten years has shown that quota-regulation by itself, even when fully justified by the special circumstances of the case, is a very imperfect instrument for steadying prices. The following proposals, therefore, whilst providing for the expedient of quota-regulation where it seems unavoidable, are primarily directed to buffer-stock stabilisation, both particular and general. They amount to an internationalisation of the

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"Ever-normal Granary" proposals of Vice-President Wallace. For these seem to go to the root of the matter and are likely to promote the general interest more completely than can be claimed for any projects which are primarily directed to restriction.

10. The extent of the evil to be remedied can scarcely be exaggerated, though it is not always appreciated. 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 an appendix. 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 the raw materials themselves or of their manufactured products, is not possible in such conditions.

11. The whole world is now conscious of the grave consequences of this defect in the international competitive system. Apart from the adverse effect on trade stability of the truly frightful price fluctuations which we have learnt to accept as normal, they 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.

12. The details of any scheme must be governed by the special problems and requirements of the individual commodities. The extent to which each commodity is homogeneous and the facility with which it can be replaced by other commodities are factors

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which affect its treatment. The natural conditions of production of different commodities differ so widely, e.g. between annual crops, tree crops and mining undertakings, that no plan can claim to be applicable to all commodities. Moreover, the reaction of producers to price variations differs very greatly and the existence of a buffer stock scheme will itself create new conditions. Any buffer stock scheme must therefore be capable of adjustment to meet different requirements. Nevertheless certain general principles of operation can, it is suggested, be usefully prescribed and agreed.

13. The essence of the plan should be that prices are subject to gradual changes but are fixed within a reasonable range over short periods; those producers who find the ruling price attractive being allowed a gradual expansion at the expense of those who find it unattractive. Thus 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 ^{of} ~~to the~~ cheaper-cost ^{producers} producers.

III

The Outline of a Plan.

14. The broad outline of such a scheme is as follows. Let us call our typical primary product commod.

(i) An international body would be set up called the Commod Control on which the governments of the leading producing and consuming countries would be represented. The management would be independent and expert, and the interests of consumers equally represented with those of producers. Its object would be to stabilise the price of that part of world output which enters into international trade, and to maintain stocks adequate to cover short-term fluctuations of supply and demand in the world market. It would not be directly concerned with the domestic price and production policy of commodities produced and consumed within the same country. Exporting countries would have votes proportionate amongst themselves to their net exports in the three years previous, and importing countries similarly in proportion to their net imports. In questions affecting the basic price exporting and importing countries might be given equal aggregate votes, and in all other questions the exporting countries might have aggregate votes (say) 50 per cent in excess of the aggregate votes of the importing countries. (The number of members on a Control would, of course, be much smaller than the number of importers and exporters who would have to be grouped for the purpose of representation.)

(ii) An initial basic price fixed c.i.f. at the principal centres of consumption (in terms of bancor if the International Clearing Union is in operation) for commod would be fixed by the Commod Control at a reasonable level on the basis of current conditions, to be modified from time to time thereafter in the manner prescribed below by a process of trial and error based on the observed tendency of stocks to increase or to decrease. This does not mean a single price but a complex of prices

according

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 complex of prices in proper relation to the basic price, provided a proper discretion is allowed to independent experts, for these margins are already established by trade practice in the management of futures markets.

(iii) Subject to special arrangements in the initial period suggested in (xiii) below, the Commod Control would be prepared at all times to buy commod, holding and storing it either in the consuming or (subject to the safeguards in (vi) below) in the producing centres as may be most convenient and advisable, at a price (say) 10 per cent below the fixed basic price; and it would sell commod at all times at a price (say) 10 per cent above the fixed basic price. It might be that this price range could be safely narrowed after experience of the working of the plan. It should not be the same for every commodity, and exceptional purchases or sales might sometimes be required by over-riding conditions. A study of the percentage deviations of crop yields from trend level in pre-war years, suggests 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 be sufficient to 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, however, 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.

(iv) Within these reasonably wide limits free and competitive international markets would handle the trade as they would in the absence of control; though state trading would remain open to any country which preferred that method. The safeguards

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against excessive price fluctuations provided by the Control should allow merchants 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 merchants within this range might effect, in practice, a still narrower range of normal short-term fluctuations except where an abnormal surplus or deficiency of current supply was clearly in prospect. But the Control would have to be prepared, at times, to carry a large part of normal, as well as abnormal, 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 general agreement of all consumers, 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.⁽¹⁾

(v) Apart from its contractual buying and selling obligations the Commodity 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 contractual 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 to ease market difficulties by changing the position of its stocks.

(vi) 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.

(1) In the case of "key" commodities the Commodity Controls might be required to take the instructions of the Super-national Policing Authority for the preservation of World Peace (if such a body is set up) as to the places of storage and the quantities to be held.

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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.

(vii) The Control would publish at frequent intervals full statistics of output, consumption and total stocks, including those held privately, and all other information useful to producers and consumers.

(viii) At annual or, in the event of sudden changes in the situation, at shorter intervals the Commodity Control would reconsider the whole commodity position. In the course of the examination the Control would review the position not only of its own stocks, but also of total visible stocks throughout the world, and in appropriate cases crop prospects also. While the Control's power to stabilise prices is entirely dependent on its own stock being adequate so that it would have to maintain a favourable level of prices until it had acquired a sufficient mass of manoeuvre, it could not view with equanimity a situation in which other stocks were accumulating rapidly even though its own were not. If, therefore, either 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. Both the appropriate quantity for the "normal" stock of an individual commodity and the appropriate maximum pace of increase or decrease in that stock depend on the special characteristics of that commodity. In the case of the 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

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there is a pronounced upward long-term trend in demand. 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 Commodity Control to find ways of conserving and suitably rewarding a prudent margin of excess potential capacity, charging the costs of this to the industry as a whole.

(ix) When a revision of prices, either upward or downward, became necessary as the result of the survey under (viii) above, 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.

(x) 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 imposed on all exports to meet the expense. This might not be necessary unless the Control were so successful that it was seldom called upon either to buy or sell at its contractual prices. Any net profits earned by the Control could be employed in the general interests of the industry, or to narrow the range of buying and selling prices, or to provide part of the fund for financing the

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stocks.

(xi) The finance of the storage and holding, for which large sums might be required if the system was extended to a number of commodities, would be provided through the International Clearing Union, with which the Controls would keep their accounts; or possibly, failing this, by an arrangement between Central Banks. It might be provided either by overdraft facilities; or, if the amount required altogether was greater than could be conveniently provided in this way, some part might be found from permanent or semi-permanent loans issued to the publics of the creditor countries, secured on the stock of the Control and guaranteed by the Clearing Union. For the purpose of such loans the requirements of a number of Commodity Controls might be amalgamated.

Emphasize importance of Clearing Union

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(xii) A General Council for Commodity Controls should be established, to which each particular scheme would be referred for examination before it was brought into operation, in order to ensure that its provisions were in conformity with the general principles formulated above. It would also be the function of the General Council to review the condition of each of the Commodity Controls, and to issue annual reports upon their operation, and 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 prices and the control of the trade cycle. The General Council should further be empowered to authorise, and possibly to require, modifications in the basic prices and the stipulated figure of stocks in particular control schemes. This would permit an adjustment of the prices of a particular commodity to a change in the general level of raw material prices or of other prices. It would also be given the powers outlined in paragraph 15 below in relation to restriction schemes.

(1) If the Economic Committee, suggested in another connection, is set up, it would be natural for the General Council for Commodity Controls to be closely associated with it.

(xiii) Special provisions would be required during the initial period when most materials 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 raw materials 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 well before the period at which they might be expected to enter into active operation. In the initial stages they would be little more than study groups accumulating as much information and statistics as possible, but they would 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 Council referred to in (xii) would have a useful function to perform during this period in correlating ideas about prices for all the commodities concerned. If this were done successfully the various 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.

15. So far no provision has been made for quota-regulation of exports or organised restriction. Such schemes were characteristic of the decade before the war, and covered, with varying degrees of effectiveness, a wide range of commodities. Opinions differ

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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 safeguard the abuse of methods ^{in trade and otherwise} so liable to impoverish the world as a whole and waste its potential resources. Moreover there is one use of quota-restriction which is wholly admirable, namely where it is avowedly temporary and for the purpose of effecting a smooth and gradual transfer from one source of supply to another.

Pre-war schemes differed greatly amongst themselves in the nature of their detailed provisions, and no attempt can be usefully made here to provide a model or uniform scheme. The object of the following suggestions is mainly directed to the provision of suitable machinery within the general framework of international control, to decide when organised restriction is justifiable and the general lines it should follow with a view to keeping it within the narrowest practicable limits.

(i) If the exporting governments represented on a Commodity Control are agreed amongst 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 Council for Commodity Controls for permission to enforce quota regulation of export.

(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)

(b) whether their proposal is intended to be a continuing one or whether it is temporary to allow a gradual transfer from high-cost to low-cost producers and from this particular output 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 a continuing one, how far, in their judgment, the existence of over-production is to be explained by

(1) stimulation of exportable capacity by subsidies or their equivalent in some of the exporting countries,

(2) restriction of importing capacity by tariffs, subsidies 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,

(5) limitation of demand by the impoverished condition of potential consumers whose standards of living would greatly benefit by increased consumption of the commodity in question;

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

(iii) On such an application being made, provisional export-quotas, based on the actual share of the export trade in the previous three years, shall come into force immediately, pending the decision of the General Council on future policy (cf. the "standard" quotas proposal in 16 (i) below).

(iv) Before approving a quota regulation proposal of a quasi-permanent character, the General Council 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

countries applying tariffs or other expedients which increase the cost to the domestic consumer (apart from recognised duties which are bona fide for revenue purposes and apply to domestic produce equally) 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 with a Nutritional Council, if there is such a body.

(v) If the exporters have not reached agreement amongst themselves as to their proportionate quotas, these shall be fixed by the General Council, which shall have regard to the proportionate share of the export trade on the average of the previous three years, but shall diminish the share, progressively in each year in which restriction is in force, of any country which subsidises exports, which is a surplus country in the Clearing Union or which is a relatively high-cost producer; and increase the share 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) The Commod Control shall fix annually a basic price at the lowest figure which corresponds to a reasonable international economic price for three-quarters of the exporting countries weighted according to their quotas. It shall also fix the absolute, as distinct from the ^{in den usual} proportionate, quotas and shall only be liable to buy the excess of the ^{absolute} absolute quota over exports sold in the market.

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

(vii) Other special features of a regulation scheme not covered by the above may be adopted by a Commod Control subject to the approval of the General Council.

16. It has been ~~argued~~ that there is a useful place for quota-regulation, not as part of a restriction scheme designed to maintain an economic price, but as a normal aid and safeguard to buffer-stock regulation in cases where the response of supply and demand to price changes is inadequate or tardy. Without such a support it is possible either that the Control would be taken by surprise or that no reasonable price changes would be effective, so that it would be deluged with offers which it could not refuse but which might seriously embarrass its subsequent activities. Moreover the existence of such a machinery would facilitate the prompt introduction of a restriction scheme proper, whether temporary or quasi-permanent, ~~where~~ where the case for this could be fully made out. Provisions with this purpose in view might be as follows:-

(i) Each exporting country should have attributed to it a standard quota, to be fixed at the inception of a Control Scheme by agreement amongst exporters (or failing this by the General Council) and subsequently a moving average of its actual volume of net exports in the previous three years.

(ii) On the occasion of a reduction in price, designed to offset the tendency of stocks to accumulate in the hands of the Control, the Control should be authorised, at its discretion, to limit its takings from exporters to an amount (including their sales in the market) proportionate (i.e. in a proportion greater than, equal to, or less than the standard quota but the same for all exporters) to their standard quotas.

(iii) So long as such standard-quota limitation continues in force, the basic price should be progressively reduced - at a rate not less than (say) 5 per cent per annum.

(iv) If the price thus reduced is approaching, or seems likely to approach, the minimum reasonable economic price, the

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Control would ask the General Council for their approval of a Restriction Scheme proper.

(v) Similarly on the occasion of an increase in price, designed to offset a tendency towards exhaustion of stocks in the hands of the Control, the Control should, if it thinks necessary, 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 low-cost producers or because they are deficit countries (or tending that way) in the books of the Clearing Union.

IV.

Commodity Controls as a Contributory Measure to the Prevention of the Trade Cycle

17. Superimposed on the meaningless 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.

18. 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.

19. 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

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incipient boom.

20. 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 a 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.

V.

Some Difficulties Reviewed.

21. The personnel and the powers of the Controls, and especially the initial negotiations laying down the general principles and regulations governing a particular Control, present obvious difficulties. What is the proper balance of authority between consumers and producers? How closely must each individual scheme conform to a general model? Is the practical management to be mainly commercial or official? How are dead-locks, arising from a conflict of interest, to be ultimately resolved?

These questions are not easily answered. But it is fair to point out that most of them apply equally to any schemes for introducing order into international trade. We may throw our

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hands in at the start on the ground that it is too difficult to improve this awkward world. But if we reject such defeatism - at any rate to begin with and before we are compelled to acknowledge defeat - then the questions to be asked at so early a stage of our work need only be whether this particular machinery for introducing international order is exposed to more difficulty on the above heads than alternative proposals directed to the same general purpose.

22. Our criterion for justifying a quota-regulation scheme is the likelihood otherwise of a price which falls below "a reasonable international economic price". What, more precisely, does this mean? In a sense the essential principle of the present proposal is that the long-term economic price, which will bring demand and supply into equilibrium without restriction, is the price that should be aimed at. But this must not be interpreted in such a way that a minority of producers with low standards of life or with no alternative output might depress prices to a level inadequate to all. For in conditions of a large excess of productive capacity, actual or potential, over that required to meet the effective demand, prices might be lowered continuously until they were insufficient to provide a reasonable standard of life for the majority of the producers concerned. "A reasonable international economic price" should be regarded as the price which would yield to ^{the majority of} producers a standard of living which is in reasonable relation to the general standards of the countries in which they ~~are to live~~ live. It is in the interest of all producers alike that the price of a commodity should not be depressed below this level, and consumers are not entitled to expect that it should. The desire to maintain more adequate standards of living for primary producers has been the mainspring of the movement towards commodity regulation schemes in recent years, and they may still remain necessary for this purpose.

23. Whatever success may attend on efforts to raise nutritional and other standards to a decent level in all producing countries,

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there must necessarily remain, at least for a long time ahead, a wide difference between this "decent" level and the level attainable in the wealthier countries. It is necessary, therefore, that buffer stock schemes should be framed on lines which leave each country free to give subsidies to their own producers, in order to maintain their standard of living at whatever level they consider suitable. None the less it must be recognised that a real difficulty arises if such subsidies are given on a substantial scale by the wealthier countries. For the effect of the subsidies is likely to be to maintain a larger volume of production in the countries giving them, and thus to check any tendency which might otherwise exist towards a redistribution of world production in favour of countries with more restricted economic opportunities. The resultant situation would thus be exposed in a considerable degree to the objection that it would have a tendency to stereotype the distribution of world output on the basis of past performance. In view of the probability that a considerable readjustment of the shares of different countries in world production may be an essential condition of restoring equilibrium to the international balance of payments, this must be regarded as a serious objection. It would seem to be important, therefore, to try to secure a general understanding that subsidies (whether to promote exports or to exclude imports) given by particular governments to their own producers of commodities which are the subject of buffer stock schemes should be confined within moderate limits. It would furthermore be desirable, as suggested above, to provide expressly that where buffer stock schemes are combined with commodity regulation schemes the quotas of countries giving subsidies should be reduced by a small percentage each year.

24. The successful operation of buffer stock schemes on the lines here proposed must depend in the long run on the genuine acceptance of the principle that the long-term economic price (in the above sense) should be the aim of international policy. Serious dangers would arise if a plan were to be adopted which

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bore a general resemblance to the foregoing, but which did not contain provisions to prevent the accumulation of stocks beyond a certain level. Otherwise it might well happen that the attempt would be made to establish a world price at a level which could doubtless be defended as not excessive from the standpoint of the standard of living which it afforded to primary producers, but which might none the less result in the eventual discredit and breakdown of the plan through the excessive accumulation of stocks.

25. How comprehensive must the Controls be at the outset? Can progress be piece-meal?

There is no obvious objection, and indeed much advantage, in piece-meal handling by which we start off with those commodities which are most important or most in trouble if left unregulated or present least practical difficulties at the outset. Evidently some of the advantages claimed above would only materialise when the Controls had become somewhat comprehensive in their field of operation. But this does not mean that the system has to be born fully matured in a day if it is to come into effective operation.

26. Increasingly before the war governments were finding themselves forced to support their producers against the effect of other countries' restrictions on their markets, and 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 partly depend on the possibility of eliminating pre-war restrictions and securing general cooperation on the part of all governments in policies directed to the expansion of consumption.

27. How are we to define what we mean by a commodity for this purpose, having regard to the variety of types and grades and to the possibilities of substitution between one article and another? Who is to decide the extent of diversity, as for example the range of price between highest and lowest, the size of maximum

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and minimum stocks, and the criteria for altering the basic price, to be allowed to one Commodity Control compared with others?

The first set of questions is practical and technical and cannot be either solved or dismissed in a general discussion.

These again, it may be pointed out, are difficulties common to all international schemes for introducing better order into the supply of raw materials. But both sets of questions point to the practical importance of the proposed General Council for Commodity Controls, which would have to undertake the initial task of organising particular Controls and approving their rules and regulations and of securing even-handed justice in all directions, as well as keeping a watchful eye on their subsequent operations. If the objection is made that the General Council will have large powers, the answer must be made that international economic controls, if they are to be effective, must have large powers. To object to such powers may not be much more than a polite way of objecting to the Controls themselves.

28. How much money will these schemes require? Will the amount be in reasonable relation to the means of supplying it?

It is difficult to frame an estimate before deciding 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' stock 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. The amounts required for "normal" stocks are themselves large, and the amounts which would be required, if for one reason or another abnormal stocks had to be held for a time, are larger still. 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 II. These figures show that the total value of a year's international trade in these commodities, taking the average volume over

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the years 1935/38, was about £700 millions at the prices of 1939 and £950 millions at the prices of 1942. A year's stocks 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. It must be pointed out 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 and enemy-occupied countries, are likely to be worth about £900 millions at present prices, the finance for which is being found already.

29. The existence of a Clearing Union, which could take the main responsibility for the provision of the finance, would so greatly facilitate a system of Commodity Controls which is essentially based on their having the financial capacity to carry an "ever-normal granary", that some might hold this project to be, in effect, conditional on the adoption of the former. This might, nevertheless, be an overstatement, if we remember that the scope of the proposed Commodity Controls could, if necessary, be limited to those cases where the Governments and Central Banks of the countries chiefly concerned felt strong enough to arrange the necessary finance by agreement amongst themselves. The introduction of the Clearing Union into the picture means that the burden is pooled and is carried, in effect, by those Banks, namely those with credit balances, which happen at the moment to be in a position to carry it without effort; whereas at present the burden falls on the Central Bank of the producing country precisely at the moment when it is least able to support it, because the falling

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off of demand for its product is simultaneously unbalancing its international position.

30. Closely associated with this advantage is another one of scarcely less importance, namely, that the raw material stocks of a producing country are rendered by this means 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.

31. It might well be, if the scheme came eventually to cover a wide range of commodities, that there would be created an excess liquidity for the world as a whole, if the finance were to be provided entirely by Clearing Union credit. In this case an appropriate part should be funded by a long-term international loan issued under the auspices of the Clearing Union and secured on the stocks of all the Controls, sufficient to cover an appropriate proportion of the stable, as distinct from the fluctuating, proportion of the pooled financial requirements of the Commodity Controls as a whole.

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