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

INTERNATIONAL REGULATION OF
PRIMARY PRODUCTS.

Note by the Secretary.

By direction of the Chairman
I circulate herewith the final
version of the Treasury Memorandum
on "The International Regulation of
Primary Products" (U.S.E.(42)15).

(Signed) A. BASTER.

Secretary.

Richmond Terrace, S.W.1.

30th July, 1942.

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THE INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.

I.

PREFACE.

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*. 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 service. The world as a whole wishes to get away from the old ideas of monopoly and restrictive cartels. Opinion to-day favours a state of society in which necessary services are rewarded on a regular and equitable scale, without, however, cramping new developments, inventions and technical progress generally.

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 and adoption of substitutes, natural or artificial. It is not right to resist these natural currents. Governments should rather concert means for mitigating the shock to producers who, through circumstances which they cannot control, find themselves losing their markets.

4. A Regulation Scheme should have two distinct objectives: (a) the moderation of excessive fluctuations of prices about the long-term equilibrium price, and (b) the maintenance of long-term equilibrium between supply and demand at a price which provides to the majority of primary producers a standard of life in reasonable relation to the standards of the countries in which they live. Buffer stocks are aimed at the first objective. They have the purpose of steadying prices and are intended, as their name implies, to absorb shocks. But to attain the second objective and to bring about long-period evolutionary changes, restriction or regulation of output may be necessary. A complete scheme must bring both these sets of arrangements into a consistent whole. To achieve the full object, however, something further may be necessary. A co-ordinating authority may be required to deal with difficulties arising between conflicting interests and to provide an adequate measure of conformity by the various Controls to a common pattern.

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5. 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 misdirected 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 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 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 go short of what they should have.

6. 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. We do not disguise from ourselves that the constructive proposals set forth in detail below 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. If the first assumption breaks down, trade in primary products may well relapse into its accustomed chaos. If the second fails, the scheme proposed may degenerate—or, as believers in full-blooded international planning might argue, regenerate—into organised regulation of the majority of products on a scale not hitherto attempted. On the other hand, 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 can escape from an insane paradox by bringing production and consumption into a fruitful union.

II.

THE INTERNATIONALISATION OF VICE-PRESIDENT WALLACE'S "EVER-NORMAL GRANARY."

7. One of the greatest evils in international trade before the war was the wide and rapid fluctuation in the world *prices* of primary products. The reason for this fluctuation was the frequent divergence between the supply of these commodities and the short-term apparent demand. The true demand for primary products is not, of course, constant. But a progressive average with a base of, say, three or four years would, in the great majority of cases, show a steady level with long-term trends upwards in the case of some materials and perhaps downwards in the case of others; and with foodstuffs the demand (but not the supply) is often steady even over shorter periods. The apparent international demand as shown by purchases of new supplies in 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 when they see an opportunity to make a profit. It must be the primary purpose of control to prevent these wide fluctuations and to allow trade to proceed in an orderly fashion—not, of course, by fixing prices for an indefinite period, but by providing that alterations shall be made gradually in accordance with the long trend variations in true demand and the response of supply to them.

8. 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 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 the raw materials themselves or of their manufactured products, is not possible in such conditions.

9. We are now fully conscious of the grave consequences of this defect in the international competitive system. Apart from the adverse effect on trade stability of the violent *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. The damage caused by such movements is not confined to producers; they are inimical also to the interests of consumers, if only because, as shown in Appendix I, the final prices of staple foods are susceptible to wide variation under the impact of violent fluctuations in the primary markets.

10. 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 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.

11. 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 to the cheaper-cost producers. Theoretically there are two alternative methods of achieving this purpose. One may be described as *Price Stabilisation* by 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 the seasonal fluctuations of agriculture), 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 *Output Regulation* by fluctuating quotas, associated, generally speaking, with Restriction. A quota system is sometimes 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 an imperfect instrument for steadying prices. The following proposals, whilst providing for the expedient of quota-regulation where it seems unavoidable, are particularly directed to buffer-stock stabilisation. They amount to an internationalisation of the "Ever-normal Granary" proposals of Vice-President Wallace, which 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. Nevertheless, as we shall see, the treatment of the two aspects—Price Stabilisation and Output Regulation—must be closely associated in practice. For purposes of exposition in the concrete proposals which now follow,

paragraph 12 is concerned with the first and paragraph 13 with the second; whilst in paragraph 14 an attempt is made to provide a connecting link between the two.

III.

THE OUTLINE OF A PLAN.

12. 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, with the objects of stabilising the price of that part of the world output of commod which enters into international trade, and of maintaining 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 commod produced and consumed within the same country. Further thought will be necessary to concert detailed provisions for the management of a Control. The members of the Control would primarily represent the chief exporting and importing countries, but the General Council referred to below should be represented on each individual Control and the appointment of independent members with expert qualifications deserves consideration. In some cases the number of members on a Control should be smaller than the number of importing and exporting countries, which might have to be grouped for the purpose of representation. The balance of voting powers also needs consideration. The exporting countries should perhaps be allowed a preponderant voice on questions of management and of detail not affecting the basic price.

(ii) An initial basic price c.i.f. at one or more of the principal centres of consumption (in terms of *bancor* if the International Clearing Union is in operation) 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 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.

(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 overriding 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 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, 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; and there would be no objection to State trading by any country which preferred that method. The safeguards 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. 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 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 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 in each.

(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 regular 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.

(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. 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.

(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 dependent on its own stock being adequate, it could not view with equanimity a situation in which outside 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 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 Control to find ways of conserving and suitably rewarding a prudent margin of excess potential capacity, charging the costs of this to consumers 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, save that during a world depression, defined by suitable indices approved by the General Council, it would not be permitted to reduce the basic price by more than 5 per cent. in one year.

(x) The profits arising out of the differences 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. 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 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, if it comes into existence, through the International Clearing Union, with which the Controls would keep their accounts. It might be provided either by overdraft facilities; or, if the aggregate amount required was greater than could be conveniently supplied 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. The question arises what could be done in the absence of a Clearing Union. It is possible that the finance could be provided by arrangements between Central Banks or by international loans as above. Thus it would be too much to say that the success of the scheme necessarily depends on the establishment of a Clearing Union. Nevertheless it is obvious that the difficulties of *ad hoc* financial arrangements would be considerable and that the Clearing Union would very greatly facilitate the Buffer Stock plan. Indeed the internationalisation of the "Ever-normal Granary" might have been proposed before now if the facilities of a Clearing Union had existed. For the use of the Clearing Union makes it unnecessary to ask any individual Government to accept commitments of which the extent is difficult to foresee; and, when the time comes, it puts no burden on anyone since those credit balances are automatically brought into play which by hypothesis are not being used, without their potential liquidity to their owner being impaired. There is, moreover, no risk to the solvency or to the credit of the Clearing Union itself, since the fact that its balances are partly covered by stocks of a number of the most universally useful commodities must increase, and not diminish, their security. The underlying principle of the Clearing Union and the financing of staple primary products dovetail together in a perfect manner. Since, however, it might be necessary to limit the financial liability of the controls in the absence of a Clearing Union, a proposal with this object in view will be outlined in paragraph 14.

(xii) A General Council for Commodity Controls⁽¹⁾ 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 13 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 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 Council referred to in (xii) would have a useful function to perform at this stage in correlating ideas about prices for all 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.

13. 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 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. In any event, there is one use of quota-restriction which is in principle acceptable, 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. It may be that there are certain intractable commodities presenting special difficulties which are better kept outside the general scheme and treated on separate lines. It may be that long-term planning, associated with quota-regulation for exports, will be particularly required in the case of agricultural crops grown in widely differing conditions in many parts of the world, by importers of the crops as well as by exporters, the supply of which is, for several reasons, particularly insensitive to price changes. Opinions will differ as to how far these problems will persist unmitigated in the post-war world, assuming success in the policy of expanding and stabilising purchasing power and raising standards of consumption. It may be that we shall find ourselves more concerned to stimulate new sources of supply than to restrict those which exist. But the treatment of special problems, if someone knows a specific cure for them, is in no way prejudiced by this wider plan.

The following suggestions are 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) 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 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 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 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 producers 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 14 (i) below).

(iv) Before approving a quota regulation proposal required for reasons regarded as likely to continue, 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 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 Commodity 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 pay attention, amongst other considerations, to the proportionate share of the export trade on the average of the previous three years. Whether the quotas are initially determined by agreement among the exporters or otherwise, the General Council 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.

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

(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 aggregate, as distinct from the individual, quotas and shall only be liable to buy the excess of the aggregate quota over exports sold in the market. So long as restriction is in force, prices shall be reduced by at least 2 per cent. per annum unless the General Council agrees otherwise.

(vii) 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 significantly lower than that ruling during the first period, unless special reason can be shown by the Control to the satisfaction of the General Council, 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.

(viii) Other special features of a regulation scheme not covered by the above, including, for example, the sanctions necessary to enforce it, may be adopted by a Commod Control subject to the approval of the General Council.

14. 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 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; and in this case exporters should agree not to export to any destination in excess of their proportionate quota.

(iii) So long as such standard-quota limitation continues in force, the basic price should be progressively reduced—at a rate of 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 Control would endeavour to secure action on the lines of § 13, inviting the General Council to approve 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 country 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.

Nevertheless (ii) above is open to great objection on the ground of the uncertainty it must produce in the minds of producers as to whether the Buffer Stocks scheme can be relied on to provide them with an outlet. If, therefore, adequate finance can be ensured through the Clearing Union, so that this safeguard is not necessary to the Controls, it would be better to omit this provision. It is only put forward subject to this qualification.

IV.

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

15. 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.

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 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.

18. 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 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.

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

20. 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 (as defined in paragraph 4) should be the aim of international policy. Otherwise an attempt might 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.

21. How comprehensive must be the list of commodities subject to the proposed Controls? Can progress be made piecemeal?

There is no obvious objection, and indeed much advantage, in piecemeal 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. It has already been suggested above that a commodity particularly intractable to this type of handling might be dealt with otherwise. Nor is it intended that special agreements, such as the recent Wheat Agreement, should be ruled out or forced into conformity with the general model if it is agreed by those concerned that there are good and continuing reasons for separate treatment. The object of the proposed Controls is to offer signal advantages to the producers of primary products. If the countries producing a particular commodity believe that they will be better off without a system of Buffer Stocks financed internationally, there can be no object in coercing them merely for the sake of uniformity. On the other hand, if they reach out after the advantages, they must also accept the discipline subject to any modifications which the General Council may approve.

22. 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 co-operation on the part of all Governments in policies directed to the expansion of consumption.

23. 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 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. They are difficulties common to *all* international schemes for introducing better order into the supply of raw materials. Both sets of questions point to the 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.

24. What commodities are sufficiently durable and capable of storage to be proper subjects for a Buffer Stocks Control? It is not possible to draw a hard-and-fast line. 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; but canning or drying might come to the rescue. For some tropical or semi-tropical products storage is possible at some stages of processing but not at others. Among oil-seeds, for example, some can be more easily stored before decortication (as in the case of ground nuts) or after crushing, and in other cases, such as linseed, indefinite storage is practicable before crushing, whilst the degree of storability varies according as the product is to be applied to edible or non-edible uses. The whole notion of buffer-stocks is complicated in this field by the high degree of interchangeability among the various components of the "oils and fats" trade. There are some perishable commodities which are clearly unsuitable for storage; but in general each particular product requires its own appropriate handling. The technique and facilities for storage may well be expected to undergo continuing improvement, and the Controls could very properly finance development in this direction.

25. 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 the years 1935–38, was about £700 million at the prices of 1939 and £950 million 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 million at present prices, the finance for which is being found already.

26. The existence of a Clearing Union, which could take the main responsibility for the provision of the finance, would greatly facilitate (as pointed out in §12 (xi) above) a system of Commodity Controls which is essentially based on their having the financial capacity to carry an "ever-normal granary." 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 off of demand for its product is simultaneously unbalancing its international position. 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.

27. It may be claimed as an advantage of the scheme that it does not assume the maintenance of private enterprise in international trade and is compatible with the further development of State trading. For, after the war, whatever may be the trading mechanism of the United Kingdom or of the United States, there are certain to be some countries, particularly the U.S.S.R., where trade in some (or in all) commodities will be monopolised by the State. Such a system of trading gives rise to some awkward problems in international commercial relations, since it is difficult to define or to determine the degree of protective or of discriminatory action in the monopolistic purchases of a State institution. But some of these difficulties can be overcome if a single world price for a primary product can be set by the International Control. As in the case of the Clearing Union, we have here a plan for international co-operation which can be safely adopted in the common interest by every country alike irrespective of its national economic policy.

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.

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.

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

(*) 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.)

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.

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	23.5	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*.