Mr Harrod

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30TH JULY, 1942.

WAR CABINET.

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

INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.

Note of Dissent by Sir Donald Fergusson.

By direction of the Chairman I circulate herewith the revised form of Sir Donald Fergusson's Note of Dissent from Document U.S.E.(42)21 ("The International Regulation of Primary Products").

(Signed) A. BASTER.
Secretary.

Richmond Terrace, S.W.1.
30th July, 1942.

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INTERNATIONAL REGULATION OF PRIMARY PRODUCTS

Note of Dissent by Sir D. Fergusson

1. The essence of the plan suggested in the Treasury memorandum U.S.E. (42) 10 is that the international regulation of primary products should be achieved by an International Commodity Control holding buffer stocks and relying on changes in the prices at which the Control will buy stocks to adjust supply to demand. If supplies begin to outrun demand prices are to be reduced and vice versa. The memorandum recognises that schemes of regulation of production and marketing by export quotas may prove necessary in certain cases and provision is made for them, but they are to be regarded as objectionable expedients which should be avoided if possible and terminated as soon as possible, and prices are to be steadily reduced while such schemes are in operation.

2. The buffer stock scheme thus seeks to continue the principle of unregulated production and free international competition in primary products. It would leave farmers to go on producing as much as possible without knowledge of or regard for the market that will be available for their products and would rely on bankrupting the so-called "high cost" farmers if and whenever the resulting supply outruns demand.

3. This is not, I think, a principle which is likely to be acceptable to Mr. Wallace or to representatives of most primary producing countries, especially after the experiences of the last 20 years. Moreover, I do not believe that the scheme would work in practice in the case of staple farm products. It takes time to bankrupt farmers and meanwhile they have to go on producing as much as possible from their farms - indeed in some cases a fall in price leads farmers to try to increase production in order to maintain their money incomes, and before they become bankrupt and unemployed Governments nowadays will intervene to save them from such a fate. Thus reliance on changes in price is not likely to be either a satisfactory or a practicable means of securing either short-term or long-term adjustments of supply to demand.

4. Agricultural Departments in most countries believe that under modern conditions the adjustment of supply to demand can only be achieved by schemes for the regulation of production and marketing. It is suggested that such schemes are open to objection from the point of view of this country on two main grounds, viz.

(i) That they involve restriction, and

(ii) That they perpetuate the status quo and prevent the expansion of production by low cost producers at the expense of high cost producers, thus depriving the consumer of the benefit of lower prices resulting from technical progress.

I think that these two objections to schemes of regulation are based on misconceptions about the nature of agricultural production and the methods by which it has to be carried on.

5. As regards (i), Regulation can be directed to an estimated expansion as well as to a stable level, of consumption. In effect, a Regulation scheme does no more than provide for agriculture (which comprises millions of individual producers none of whom can possibly estimate what the demand for their products will be) the same kind of plan which a manufacturing company makes to adjust the output of its factories to the estimated market for its products. The main differences are that agricultural production requires longer-term planning than factory production, is subject to variations caused

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by weather, etc. and can be less easily or swiftly adjusted to meet changes in demand.

6. The objection that regulation of production and marketing prevents the expansion of low cost production at the expense of high cost production rests on the assumptions that material and fairly rapid reductions in costs of production are likely to occur and that under a competitive system such reductions will lead to lowered prices. It is however very doubtful whether these assumptions are correct as regards the staple food products - cereals, meat and dairy products - for the following reasons:-

(a) The main factors affecting the cost of agricultural production are soil and climate. We have today reached a point where it can be fairly definitely stated that most agricultural commodities are already being produced throughout the world on the soils and in the climate where they can be produced most cheaply. In the case of commodities like cereals, meat and dairy products it is unlikely that new machinery or inventions will effect large and rapid reductions in costs of production.

(b) In farming, unlike manufacturing industry, the producer who reduces his costs cannot thereby secure any large addition to his sales at the expense of less efficient producers because he cannot largely increase the output from his farm. He will merely increase his profit on virtually the same output. Such reductions in costs as are secured from inventions or technical progress can therefore only affect prices after they have been adopted by a substantial proportion of the total number of producers. Except in an agricultural boom the widespread adoption of new methods is normally a slow process among farmers, taking a decade or a generation. There is therefore little danger that Regulation schemes and export quotas fixed for periods of, say, 5 years will withhold from consumers the benefit of lower prices resulting from technical progress in agriculture. Indeed there is reason to believe that the economic stability given to farmers under schemes of regulation will expedite the widespread adoption of new methods and hasten rather than retard the possibility of translating lowered costs into lowered prices.

7. Without going into the general question whether a regulated system of trade would not suit this country better than "free" competitive trade in the conditions likely to prevail after the war, it is suggested that on a long view it is to our interest both as consumers and exporters that existing primary producers should be afforded a reasonable measure of economic stability. It is not to our long-term advantage that land should be exhausted, that existing agricultural communities should be impoverished or that farmers in one country after another should be forced to leave the land and go into the towns. For the reasons stated in paragraph 3 above it is believed that economic stability for agricultural producers would not be achieved by the buffer stock proposal but only by schemes of regulation of production and marketing, that in practice we have no reason to fear such schemes and that instead of being regarded as objectionable expedients to be avoided if possible they should form the basis of any agreement for the international regulation of agricultural products. Given this basis it would be desirable to try to devise a buffer stock scheme to deal with short-term fluctuations caused by such factors as weather or unexpected changes in demand but it would obviously have to be a different type of scheme from that which has been put forward in the Treasury memorandum.

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It would be subsidiary and complementary to schemes of regulation and not, as in that memorandum, designed as the primary and governing instrument for adjusting supply and demand.

(Signed) DONALD FERGUSSON.

30th July, 1942.