THE USE OF INTERGOVERNMENTAL AGREEMENTS IN THE MARKETING OF
AGRICULTURAL COMMODITIES, WITH PARTICULAR REFERENCE
TO THE INTERNATIONAL WHEAT AGREEMENT OF 1949

Dissertation

Presented in Partial Fulfillment of the Requirements
for the Degree of Doctor of Philosophy in the
Graduate School of the Ohio State
University

By

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The Ohio State University

1953

Approved by:
ACKNOWLEDGMENTS

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A debt of gratitude is owed also to Dr. Clifford L. James of the Department of Economics, whose valuable suggestions helped greatly in the organization of the study and the writing of the manuscript.

Thanks is extended also to Dr. V.R. Wertz and Dr. R.W. Sherman of the Agricultural Economics Department and to Dr. Alvin Coons of the Economics Department, whose constructive help in reading the manuscript was much appreciated.
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PART I

INTERNATIONAL TRADE IN AGRICULTURAL COMMODITIES:

GENERAL PROBLEM
INTERNATIONAL COMMODITY AGREEMENTS AS A MEANS OF INTERNATIONAL MARKETING OF AGRICULTURAL PRODUCTS

CHAPTER I

INTRODUCTION

Throughout history people have exchanged goods with others in distant areas, thus drawing on the special resources with which those areas had been particularly endowed. In biblical times caravans journeyed from the East with frankincense and myrrh. During the Middle Ages and the period following, oriental spices and silks were prized throughout Europe and thriving commercial cities, such as Venice grew up. In the search for new trade routes to the Orient, the American continent was discovered. And the development of the fur and tobacco trade which followed, depended on trade with Europe.

During the 18th and 19th centuries rapid improvements in technology, particularly in communication and transportation, opened up vast new producing areas that had previously not had much economic significance. Expansion in these areas was dependent on the markets found in the rapidly growing industrial areas of Europe. Roads, canals, railways, steamships and telegraphy all contributed to extending enormously the trade between nations.

Along with such a rapidly growing commerce evolved a complex institutional framework in which trade was conducted relatively smoothly. Highly organized commodity markets came into being, supported by equally efficient money markets. Trade moved freely
between nations and the cities of Western Europe, particularly Lon-
don, became busy centers of commerce.

Thus, by 1900 a multilateral network of world trade existed, automatically controlled by the use of gold as an international monetary standard, with access to goods and services limited only by a nation's financial ability to buy them. There was a relatively free movement of goods between the producing and consuming areas of the world and, except for some occasional adverse repercussions on domestic economies transmitted by the automatic operation of the gold standard, an institutional framework existed that served fairly well to organize the world's resources so that they made their utmost contribution to material welfare.

However, within the last three decades three major blows have greatly impaired the effective operation of this free market system. The effects of the first World War had not been resolved when the Great Depression struck. And by the time World War II was declared in September, 1939, "the international economy retained only a semblance of its one time resilience and strength." 1/ The havoc wrought by two world wars and a depression of unprecedented severity is not easily overcome, but some institutional framework must be built up within which the world's resources can again be turned to the production of goods and services for the welfare of all mankind.

During the past three decades the importance of raw materials in the economy was brought home with force. "Modern industrial civilization has made itself dependent upon such an array of raw materials and upon such enormous quantities of them, as to dwarf by comparison the raw material needs of all previous civilizations in human history." And the raw material base upon which our modern industrial civilization rests is unavoidably international. Since raw material needs are relative to such factors as the methods of production in any given society, the habits of consumption, and the size of the population to be supported, it becomes apparent that some remote communities are able to obtain their relatively limited needs from local sources. But such is not the case for those people living in the major industrial regions of the world. Only by drawing reciprocally upon each other can any of the major geographical regions meet, without excessive cost, the dire needs for the variety and abundance of raw materials made necessary by industrialism and the density of modern populations. Since a plentiful trade in raw materials and primary products is of such urgent necessity it would be well to glance summarily at some of the factors that hinder or make more difficult the free flow of such goods to the areas where they are most needed.

CHAPTER II
DIFFICULTIES ARISING WITHIN THE INDUSTRY

Many of the difficulties and problems which interfere with the free flow of agricultural commodities in international markets have their origin in some of the inherent characteristics of the industry. These characteristics influence trade directly through their effect on the position of the agricultural producers in the market, and in addition, bring about a response to influences originating outside the industry which augments the disruptive effects of these outside factors. While the effect of these "endogenous" influences will be seen in the following section dealing with the market influences of "exogenous" origin, it might be well to mention more specifically a few of these qualities peculiar to agricultural production which do contribute to trade difficulties.

(1) The agricultural industry generally is made up of many small sized units. Thus, except in some specialized lines of production, the market on the producer's side is relatively competitive compared to the decreasing amount of price competition occurring in the remaining segments of the economy.

(2) Farming is characterized by a large proportion of fixed costs. There is a large investment in land, machinery and equipment and most farm labor being family labor, wages are relatively fixed also. Unlike industry, also, the rate of turnover of the capital investment has been much slower. The result is that not much economy can be effected by reducing variable costs in bad times, so
normal or greater production is continued in an attempt to cover part of the fixed costs.

(3) Agriculture has been characterized in the aggregate by unresponsive actions to price movements, or reactions just the reverse of those which ought to take place in the interests of adjustment. There is usually a ready response to upward price movements, but only a slow response to downward ones. In fact, due to the heavy overhead mentioned previously, the response to lower prices may be greater production in an attempt to cover the fixed costs. It is also true that acreage planted may often depend as much on the weather and soil conditions at planting time as upon price movements. Labor resources in agriculture are very immobile, largely because of strong emotional ties emanating from the fact that the farm is both a business and a home. Severe economic pressure is necessary to increase this mobility and coupled with the higher rate of population increase and growing technological advance in agriculture serious overcapacity develops.

(4) There is a strong tendency in agriculture towards overcompensation following price induced adjustments. Producers do not correctly appraise the true market situation so that a rise in price attracts more than the required amount. Conversely during extended periods of low prices too much capacity may be eliminated resulting in the cycles characteristic of some lines of production, such as hogs or beef. This tendency to overcompensation results from a combination of several of the inherent characteristics of the industry. It is particularly marked in specialized lines such as coffee or rubber.
plantations where the productive equipment requires considerable time to come into operation and after which the resources cannot be transferred to other uses. This applies likewise, to a lesser degree, to most lines of farm production which, once embarked upon, cannot usually be changed immediately due to the biological limitations imposed by the length of the production period. Too, the fact that there are thousands of small producers with similarities in costs, habits, information and outlook, all acting together in expansion or contraction, in ignorance of the simultaneous responses being made to the same price stimuli by other producers is a fundamental cause of overcompensation.

(5) Added to the long run increase in the rate of supply of farm products as a result of technological change are the accidental variations in production arising from weather and other circumstances. When such supply factors characteristic of agriculture are combined with an inelastic demand for farm products and a demand that is declining relatively, the result is violent fluctuations in the incomes of producers.

These various characteristics endemic to agriculture not only make the economic position of the producer difficult in relation to the rest of the economy, but they tend also to invoke political measures designed to better the position of the farm population. Such measures have usually been restrictive or disruptive rather than expansive in their effects on trade.
In addition to these political measures there are several other factors which arise as a result of conditions outside the agricultural industry itself, but which in effect tend to hamper the smooth operation of primary commodity markets. The close relationship between the characteristics peculiar to agricultural production and those factors of external origin may be seen as these latter influences are discussed in the following section.
CHAPTER III
DIFFICULTIES ARISING OUTSIDE THE INDUSTRY

Deficit and Surplus Areas

The production of crops throughout the world is derived from about 2.47 billion acres of cultivated land, or approximately 7.5 percent of the earth's 32.6 billion acres of land (not including the Antarctic and the arms of the sea extending inland). It has been estimated that another 7.5 percent of this land is used for such agricultural purposes as permanent meadows and pastures. But this cultivated land is very unevenly distributed over the earth, and adding to this imbalance are the effects of such factors as variance in yields, the land use pattern, types of soils, and condition of the land. As a measure of the agricultural productive capacity and that of industries depending on agriculture for raw materials, the amount of cultivated land is significant. As shown in Table III-1, Asia (excluding U.S.S.R.) with more than one-half of the world's population, has less than one-third of the cultivated land. On the other hand, North America with only about eight percent of the world's population, has more than 21 percent of the cultivated land.

Table III-1
Total Land Area, Cultivated Land, and Population, by Continent or Country, Percentage of World Total

<table>
<thead>
<tr>
<th>Continent or Country</th>
<th>World Land Area</th>
<th>World Cultivated Land</th>
<th>World Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Asia (excl. U.S.S.R.)</td>
<td>18.6</td>
<td>32.9</td>
<td>53.1</td>
</tr>
<tr>
<td>North America</td>
<td>17.3</td>
<td>21.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>16.1</td>
<td>16.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Europe (excl. U.S.S.R.)</td>
<td>3.7</td>
<td>16.3</td>
<td>17.9</td>
</tr>
<tr>
<td>Middle &amp; So. America</td>
<td>13.2</td>
<td>5.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Africa</td>
<td>21.1</td>
<td>5.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Australia and Oceania</td>
<td>7.0</td>
<td>1.5</td>
<td>.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Does not include the Antarctic regions.


The 15 countries shown in Table III-2 have more than 75 percent of the world's cultivated land and more than 62 percent of the population of the world. This is as much cultivated land as Europe (excluding U.S.S.R.) has, yet the population of Europe is about three times as great. The United States, the Soviet Union, India and China have about 57 percent of the world's total cultivated land and about one-half of the world population. However, there is a great variation in the amount of cultivated land per person. In China there is only 2.9 acres per person compared to 3.13 acres per capita in the United States and 5.94 acres in Canada. The average cultivated land per capita throughout the world is 1.1 acres.

* Italics, p. 1
### Table III-2

Distribution of Cultivated Land Among the 15 Countries Having More Than 75 Percent of the World's Total Cultivated Land, Latest Data Available at 1946

<table>
<thead>
<tr>
<th>Country</th>
<th>Acres Cultivated Thousands</th>
<th>Cultivated Land as a % of Total Land</th>
<th>Cultivated Land Per Capita Acres</th>
<th>Percentage of World Cultivated Land Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>435,000</td>
<td>22.8</td>
<td>3.13</td>
<td>17.6</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>414,000</td>
<td>7.9</td>
<td>2.43</td>
<td>16.8</td>
</tr>
<tr>
<td>India</td>
<td>382,610</td>
<td>37.9</td>
<td>0.98</td>
<td>15.5</td>
</tr>
<tr>
<td>China*</td>
<td>177,718</td>
<td>13.8</td>
<td>0.29</td>
<td>7.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>64,395</td>
<td>9.3</td>
<td>0.56</td>
<td>2.6</td>
</tr>
<tr>
<td>Canada</td>
<td>63,385</td>
<td>2.9</td>
<td>0.29</td>
<td>2.5</td>
</tr>
<tr>
<td>Germany</td>
<td>49,918</td>
<td>42.8</td>
<td>0.72</td>
<td>2.0</td>
</tr>
<tr>
<td>France</td>
<td>49,338</td>
<td>36.3</td>
<td>1.22</td>
<td>2.0</td>
</tr>
<tr>
<td>Poland</td>
<td>47,219</td>
<td>49.2</td>
<td>1.47</td>
<td>1.9</td>
</tr>
<tr>
<td>Spain</td>
<td>41,556</td>
<td>35.6</td>
<td>1.65</td>
<td>1.8</td>
</tr>
<tr>
<td>Iran</td>
<td>40,795</td>
<td>10.2</td>
<td>2.47</td>
<td>1.6</td>
</tr>
<tr>
<td>Manchuria &amp; Jehol</td>
<td>38,386</td>
<td>11.9</td>
<td>0.89</td>
<td>1.5</td>
</tr>
<tr>
<td>Italy</td>
<td>35,610</td>
<td>47.9</td>
<td>0.77</td>
<td>1.4</td>
</tr>
<tr>
<td>Australia</td>
<td>34,865</td>
<td>1.7</td>
<td>0.71</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,077,795</strong></td>
<td><strong>--</strong></td>
<td><strong>--</strong></td>
<td><strong>75.8</strong></td>
</tr>
</tbody>
</table>

*Twenty-two Provinces (Sikany and Sinkiang not included).

Source: A Graphic Summary of World Agriculture, United States Department of Agriculture, Miscellaneous Publication 705, October, 1949, p. 2.

It has been estimated that grain represents three-fourths of man's food. From the point of view of food production then, an indicator of deficit and surplus areas would be the amount of grain produced per person. In Table III-3 it may be seen that Asia, with 53 percent of the population produces 41 percent of the world's grain,

---

while North America with only eight percent of the population of the world produces 20 percent of the grain. Thus, the amount of grain produced per person in North America is over three times that of Asia and more than double that of Europe.

Table III-3
World Population and Grain Production

<table>
<thead>
<tr>
<th>Continent</th>
<th>Population Millions</th>
<th>Grain Millions Lbs.</th>
<th>Proportion of Population Percent</th>
<th>Proportion of Grain Percent</th>
<th>Acres per Person</th>
<th>Grain per Person Lbs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1,154</td>
<td>683,000</td>
<td>53</td>
<td>41</td>
<td>9</td>
<td>592</td>
</tr>
<tr>
<td>Europe</td>
<td>575</td>
<td>453,000</td>
<td>27</td>
<td>27</td>
<td>4</td>
<td>782</td>
</tr>
<tr>
<td>No. America</td>
<td>184</td>
<td>342,000</td>
<td>8</td>
<td>20</td>
<td>30</td>
<td>1859</td>
</tr>
<tr>
<td>Africa</td>
<td>157</td>
<td>95,000</td>
<td>7</td>
<td>6</td>
<td>47</td>
<td>605</td>
</tr>
<tr>
<td>So. America</td>
<td>89</td>
<td>86,000</td>
<td>4</td>
<td>5</td>
<td>52</td>
<td>966</td>
</tr>
<tr>
<td>Oceania</td>
<td>11</td>
<td>17,000</td>
<td>1</td>
<td>1</td>
<td>191</td>
<td>1545</td>
</tr>
<tr>
<td>World</td>
<td>2,170</td>
<td>1,676,000</td>
<td>100</td>
<td>100</td>
<td>16</td>
<td>772</td>
</tr>
</tbody>
</table>


A similar pattern of variation between surplus and deficit areas exists for mineral raw materials, though the sources of these materials are concentrated in a much fewer number of countries. The areas where the minerals are used are also relatively concentrated, being primarily in the leading industrial regions of the earth. But though the sources of non-mineral raw materials appear to be more widely dispersed, in actuality the production of many of these commodities is highly concentrated, due to cost differentials which would make self-sufficiency of the less favored regions economically impractical.
It is quite probable that the production of most raw materials would be much more concentrated than at present were it not for the fact that the important cost advantages of the best areas have been neutralized by political measures. 6/

In addition to the existence of deficit and surplus areas in regard to the earth's physical resources, necessitating international movements of goods, and creating the problems of "have" and "have-not" nations, there also exists a wide variation between regions in regard to cultural resources. Such factors as technical skills, enterprise or initiative, and capital, important in the economic production and use of raw materials, are present in large amounts in some countries and practically non-existent in others. Not only is there a dearth of these cultural resources in some areas, but the distribution of them is only slowly alterable.

Interregional trade thus becomes imperative, and of equal necessity is the interregional exploitation of raw materials. 7/ But though there appears to be no escape from international raw material interdependence, between the deficit and surplus areas problems continually arise which influence the flow of goods in one way or another, depending on the method taken to solve the problems.

6/ Staley, E., op. cit., p. 5.
7/ Staley, E., op. cit., p. 5.
Market Dislocations

In a dynamic or developing economy, particularly of a type characterized by those of the western world, the pattern of resource use is continually changing. If these changes occur gradually over a long period of time the adjustments may take place relatively painlessly and no particular segment of the economy will be unduly hurt. If the need for change occurs within a short period of time the resultant dislocations may bring about hardships to some of those affected. Regardless of the severity of the dislocations, some change in trade is invariably required as a result of them, forcing individuals, industries or nations to adjust their trading accordingly.

The factors causing economic dislocations are many, but some of the main ones that bring about a need for adjustments in the trade of raw materials are as follows:

Wars

During peacetime the usual determinants of international trade - comparative costs, national income, and national economic policy - operate through their effect on the price and market system. But in time of war, national security becomes of paramount importance, and the trade policies which follow may be determined with little or no consideration to relative costs or prices.

During World War II the impossibility of international trade made home production for essential needs an absolute requirement in many countries. The trading channels severed by the war probably carried about one-third of the prewar international trade, forcing shifts of major proportions within many countries. Before the War,
Europe accounted for 26 percent to 30 percent of American imports, Asia for 29 to 30 percent and northern North America for 13 to 15 percent—a combined total of 70 to 75 percent of all American imports. Wartime imports from Asia and much of Europe were cut off, requiring that the lost imports be drawn mainly from Canada and Latin America. As shown in Table III-4, imports in 1942 from Latin America were three times greater than in 1939 and from Canada nearly four times greater. The main importance of these changes does not arise from their effect on the United States economy, but from the fact that to the supplying countries such an increase in exports constituted a large part of their total output and such increases in exports were only made possible by large increases in gross national product. This increased productivity has resulted in large domestic and international trade adjustment problems. If prewar trade patterns are subsequently reverted to, serious dislocations and further adjustment problems will arise also.

The war not only forced changes in the channels of trade, but also forced a shift in comparative advantage position of many countries that resulted in accelerated industrialization. This was particularly true in countries of the British Commonwealth. In such countries, the increased exports were derived from additional productivity of previously established industries and from investment of a permanent nature in new industries. At the same time, countries previously enjoying a comparative advantage in many of these industries suffered serious physical destruction and resource depletion.

8/ Buchanan and Lutz, op. cit., p. 84.
Any attempt to regain their former position in world trade is thus made more difficult by the competition of new wartime industrial areas that had previously constituted markets for their goods.

Table III-4
Geographical Distribution of United States Imports, 1939-1944
(In millions)

<table>
<thead>
<tr>
<th>Origin</th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total*</td>
<td>$2,318</td>
<td>$2,625</td>
<td>$3,345</td>
<td>$2,745</td>
<td>$3,372</td>
<td>$3,900</td>
<td>$4,130</td>
</tr>
<tr>
<td>American republics</td>
<td>518</td>
<td>619</td>
<td>1,008</td>
<td>977</td>
<td>1,310</td>
<td>1,600</td>
<td>--</td>
</tr>
<tr>
<td>Canada</td>
<td>340</td>
<td>424</td>
<td>554</td>
<td>717</td>
<td>1,024</td>
<td>1,300</td>
<td>--</td>
</tr>
<tr>
<td>Enemy or enemy controlled areas</td>
<td>Europe</td>
<td>349</td>
<td>136</td>
<td>38</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Asia</td>
<td>510</td>
<td>705</td>
<td>782</td>
<td>143</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>All others</td>
<td>602</td>
<td>741</td>
<td>963</td>
<td>904</td>
<td>1,025</td>
<td>894</td>
</tr>
</tbody>
</table>

*Total figures are slightly greater than summation of columns because of "rounding off".


Arising out of the changed physical productivity and trade is a drastic redistribution among nations of international financial claims and obligations that results in a changed balance of payments position of many countries. Thus adjustment in trade flows must be made not only to commodity changes, but to financial changes as well. A paradox arises in many countries, however, making adjustment more difficult because of the fact that while the changed financial
position requires greater exports to alleviate the problem, the commodity changes in comparative advantage that would permit this have typically been in the opposite direction. 9/

"What emerges from the war then is an altered distribution of productive resources within national economies whose price structures have had little wartime connection with each other. The consequence is that the resumption of trade must accommodate the profound changes in costs, production facilities, tastes and needs that have accumulated during the war. The wartime financial changes, combined with coexisting changes in international comparative advantages and needs have bequeathed a tremendous adjustment problem. 10/

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9/ Ibid., p. 104.  
10/ Ibid., pp. 68, 93, 104.
Shifts in Demand

Failure to adjust production to long run and relatively permanent shifts in demand is one of the most important causes of chronic disequilibrium in an industry. This fact has become particularly apparent in agriculture, where the rate of growth of demand has slowed down and where the demand for farm products has experienced a changing qualitative pattern. The rate of growth of demand in a developing economy depends upon changes in population, income and consumers' tastes. During the latter quarter of the 19th century and early 20th century the rapid growth of industrialism provided ever-expanding markets for agricultural products and the newer agricultural areas were outlets for the production of the industrial areas. Throughout the Western economy the increase in population numbers was great. In such an expanding economy goods could be sold anywhere and it seems improbable that anything but a regime of relatively free trade could have existed. Such is largely not the case today, however. Recent estimates of population numbers for some regions of the world are shown in Table III-5. While in all regions populations have been expanding their numbers absolutely since World War I, in the Atlantic trading area there has been a decline in the rate of growth, with a considerable drop in the rate of increase during the decade of the 1930's. North-West-Central Europe, expanding at the rate of only .6 percent per year from 1920 to 1930, experienced a fall to .5 percent per year during the 1930's. Projections made in 1944 estimated the
The rate of population growth of Europe's population in the decade 1950-1960 was as low as 1.4 percent per year. However, there was an unexpected increase in the growth rate during the 1940's to .6 percent per year again, though this rate was still less than that of the United States during the 1930's.

Table III-5

<table>
<thead>
<tr>
<th>Region</th>
<th>Reliability of estimate</th>
<th>Midyear Estimates (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1920</td>
</tr>
<tr>
<td>World</td>
<td>--</td>
<td>1334</td>
</tr>
<tr>
<td>Africa</td>
<td>Poor</td>
<td>136</td>
</tr>
<tr>
<td>America</td>
<td>--</td>
<td>207</td>
</tr>
<tr>
<td>U.S. and Canada</td>
<td>Good</td>
<td>115</td>
</tr>
<tr>
<td>Latin America</td>
<td>Fair</td>
<td>92</td>
</tr>
<tr>
<td>Asia (a)</td>
<td>--</td>
<td>997</td>
</tr>
<tr>
<td>Near East</td>
<td>Poor</td>
<td>55</td>
</tr>
<tr>
<td>S-Central Asia</td>
<td>Fair</td>
<td>314</td>
</tr>
<tr>
<td>Japan</td>
<td>Good</td>
<td>56</td>
</tr>
<tr>
<td>Remaining for East</td>
<td>Poor</td>
<td>572</td>
</tr>
<tr>
<td>Europe (b)</td>
<td>--</td>
<td>465</td>
</tr>
<tr>
<td>W-Central</td>
<td>Good</td>
<td>179</td>
</tr>
<tr>
<td>Southern</td>
<td>Good</td>
<td>70</td>
</tr>
<tr>
<td>Eastern</td>
<td>Fair</td>
<td>236</td>
</tr>
<tr>
<td>Oceania</td>
<td>Good</td>
<td>9</td>
</tr>
</tbody>
</table>

(a) Excluding Asiatic part of U.S.S.R.
(b) Including Asiatic part of U.S.S.R.


The latter country and Canada experienced a decline in the rate of population growth during the interwar period similar to that of Western Europe. From an annual rate of growth of 1.6 percent from

1920 to 1930, the rate for the United States fell to .7 percent from 1930 to 1939. During the war and postwar decade the rate rose to 1.4 percent per year. On the other hand the population of India has continued to expand at a constant rate of about one percent per year, which, applied to India's population means an additional four million persons annually. The population of Latin America has expanded at about two percent per year and that of Japan at 1.3 percent to 1.4 percent in the years 1939 to 1949.

Rotstein has classified the areas of the world according to long-run rates of population growth. In the incipient decline group fall North-West, South and Central Europe; North America; and Australia and New Zealand. Areas of transitional growth are Eastern Europe, Soviet Union, Japan, certain South American countries, Turkey, Palestine and parts of North Africa. About one-half of the world's population falls in the group classified as having high growth potential - all Asia except the Soviet Union and Japan, Egypt, Central Africa, islands of the Pacific and those of the Caribbean, Central and much of South America and most of the Near East.

It thus seems apparent that within the economy where most trade has taken place in the past, namely that facing the Atlantic, the rate of population growth has slowed down since the period of rapid

growth that accompanied the enormous industrial expansion. This has resulted in long run shifts in aggregate demand especially for certain consumer's commodities such as food, clothing and shelter which are functionally related to population growth. Many of the dislocations in trade have undoubtedly been due to the failure of some segments of the economy, particularly agriculture, to adjust to this trend. If European countries can no longer sell their industrial products and they in turn can no longer be considered an expanding market for agricultural products and raw materials from North America, self-sufficiency, with its concomitant breakdown in trade, may not be a matter of principal but one of necessity. The resurgence of the population growth rate since World War II makes for a more optimistic outlook for future demand than was possible in the early 1940's. But this rate of increase is still very considerably less than that prevalent prior to 1920, and a production and marketing pattern built up in terms of aggregate demand at that time will still require some long-term production adjustments and institutional modifications if trading problems are to be solved.

A second factor influencing shifts in demand is the change that occurs in the incomes of the population. As people become richer they spend proportionately less of their income for consumer goods from which farm products derive their demand. 14/ Schultz has estimated the income elasticity for food to be approximately .25. Though the rate of increase of population has shown signs of slowing down in the

14/ Schultz, T.W., op. cit. 315-316.
western countries, the national income per capita has continued to rise. Such increases in national income, however, tend to benefit agriculture less than other sectors of the economy.

Not only do dislocations result directly from changes in aggregate demand for agricultural products, but the maladjustment is made worse by the accompanying acceleration of rate of supply. Technological advances have been rapid in agriculture but the increased supplies of farm products have met with relatively declining markets. It becomes obvious that with the newer and better farming practices and techniques, fewer people are now needed to produce farm products. While some migration to urban centers has continually taken place, such migration has not been sufficiently great, with the result that both low incomes and what has appeared to be chronic overproduction have characterized agriculture. This pressure on the agricultural segment of economies may have major consequences in the field of international trade. T. W. Schultz has outlined the international ramifications of the agricultural problem as follows: "Trading countries that are unable to industrialize find themselves in a serious income squeeze, the only remedy for which would appear to be migration. Trading countries that have been backward in their technology and that have very limited amounts of capital at their disposal, but which have the potentialities for industrialization, may well experience a very considerable increase in the demand for food. But to satisfy such additional demand for food, production is likely to be increased within the country instead of importing it. Trading
countries with an advanced technology and with industrialized and urbanized communities may well experience further real rises in income, and as a consequence, import more food. But for most countries in this latter group, population increases in prospect are very small, and the income elasticity for food already very low.\textsuperscript{15/}

It would thus seem that the dislocations and strains on the agricultural sectors of the economies of many countries are of a chronic, long-run nature and the inability to make the necessary adjustments domestically can have major repercussions on the international movement of goods. One only need look at the difficulties involved in maintaining international trade where farm products are involved when, at the same time, governments are instituting domestic programs to maintain farm prices above those outside the country, to see the broader importance of the dislocations.

In addition to the effects of technology on increased supply of farm products, some of its influences on demand may be mentioned. The growing advances in the field of nutrition have important effects on the demand for food. It might be suspected that as the knowledge of nutrition is made widely available to consumers the demand for food, particularly of certain types, would be increased. It seems more likely in the aggregate, however, that advances in nutrition will rather increase the efficiency in the use of foods, thus lessening the demand for it, despite the fact that the rate of supply is increasing.

\textsuperscript{15/} Ibid., p. 320.
Another facet of the influence of technology on shifting demand appears in relation to those farm products whose demand was derived from industrial uses. For these products, technology seems to have shifted as much demand away from agriculture as it shifted toward agriculture.16/ With regard to cotton, there is the development of rayon. Technology created tractors, automobiles, and trucks, but demand was shifted from farm products fed to horses and mules to petroleum products, and about 40 million acres - an area larger than the state of Iowa - were released.

16/ Ibid., p. 342.
Other Causes of Dislocations

It is not the intention to deal with all the sources of dislocations which interfere with international trade in basic agricultural commodities. However, some additional important ones that give rise to problems of adjustment may be mentioned.

Closely tied in with the problems arising from technical advancement are those brought about by the competition of substitutes. This has been apparent in the textile industries where the competition of rayon has reduced the demand for cotton considerably. Similar substitutes are being found for wool which will add to the recurring problems of wool marketing. If such substitutes can acquire a significant portion of the market, major adjustments may be required in the use of resources producing the displaced product.

Another aspect of technical progress producing hardship and dislocation for many producers is the fact that often such progress has taken forms from which older producers cannot take advantage. Such is the case when technical progress takes the form, not primarily of new and better machinery, but of new and richer sources of supply. This was true of wheat production in Europe. Under such conditions there is bound to be excess capacity until the old high-cost producers have been forced to abandon production.

One of the major forces adding a disruptive influence to trade in agricultural products is that of "economic storms" or business cycles. The depression of the 1930's rendered already serious

maladjustments absolutely critical. In addition, many fairly ef-
fficient producers were hard hit through the fall of prices to ob-
viously unremunerative levels. Under such conditions prices cease
to be reliable indicators for producers, nor do such low prices
necessarily indicate that these lines of production are over-expanded
or that forcing some producers out would help to restore equilibrium.
The effect of such price changes may be seen in some figures given
by Herbert Feis. 18/

"The price of spot rubber averaged 10 1/4 pence per pound in
1929; during 1932 it averaged 2 1/4 pence. The gold export price of
wool in Argentina fell by 72 percent. Of raw silk in Japan by 68
percent, of coffee in Brazil by 64 percent, of bacon in Denmark by
64 percent, of cotton with United States by 63 percent, and of wheat
in the United States by 52 percent."

"How price fluctuations of this type disturb the conditions and
terms of trade between countries needs little explanation. In 1932
for example, the exports of New Zealand sold at prices which provided
only 52 percent of the purchasing power over goods which that country
customarily imported that would have been obtained had the price re-
lationships of 1929 remained unchanged; the exports of the Nether-
lands East Indies per unit commanded only 67 percent of their former
purchasing power over imports. While in the reverse aspect, German
exports, almost entirely manufactured goods, sold in 1932 at prices
per unit that commanded 175 percent of the volume of imports that

18/ Feis, Herbert-Sinews of Peace, Harper Bros., New York, 1944,
p. 230.
they would have in 1929. The corresponding figure for France was 145 percent, and for Great Britain 140 percent."

One of the causes of the incidence of price fluctuations on agricultural products has been found in the changed and changing character of economic activity. Industrial manufacture tends more and more to be organized in large units, each of which controls a significant part of the production of commodities catering to specialized markets. "The presence of a strong public opinion against exposing wage earners to unemployment and wage reductions in periods of crisis has further concentrated the necessity for cost adjustment upon the narrowing segment of economic activity where competitive forces remain powerful. The result has been great pressure upon the prices of raw materials, which have fluctuated violently and brought hardship to less organized producers."

The effects of these price fluctuations are not only disastrous for particular producers, but for nations as a whole when such nations, like Brazil, depend for a major part of their income on the returns from one specialized crop. Such specialization itself may also have additional disrupting effects on trade outside of those caused by extreme general business conditions.19/ The production of many specialized crops such as tea, coffee, rubber, deciduous fruits, olives, and citrus fruits is a long process. A favorable price may induce producers to extend production, but such plantings take

several years to mature. Overoptimistic forecasts are likely to result in a glutted market. The extreme specialization constitutes an obstacle to smooth change and continued overproduction may well be the result.
Nationalistic Policies

The high degree of international raw material interdependence has been previously discussed, but problems arise because of the fact that although the raw material needs are international, political control over the resources is national. Even prior to 1929, many existing national industries, threatened by low cost producers in other countries, and which ought to have disappeared in whole or in part, were defended and protected because their disappearance would involve much loss of capital, substantial unemployment for a time, and all the general financial, political, and social difficulties which are involved in any large scale redistribution of national resources.20/

But with the onset of world depression following 1929 the situation became desperate and producers appealed to their governments for aid. And since the whole economic, political, and social structure of their countries seemed threatened with collapse, the governments had to accede. Prior to this time tariffs had been the main tool of commercial policy. Import quotas and exchange controls, used to some extent during World War I and immediately following had been considered only temporary. But with employment and markets falling off rapidly and balance of payments positions growing continually weaker, nations revived all these old forms of control and spawned many new ones in an attempt to isolate their economies from the repercussions of world depression. The effect on trade in agricultural

20/ Rowe, J.W.F., op. cit., p. 176.
products grew large as the previously important importing countries fostered a program of self-sufficiency. In the face of such policies, exporting countries had no alternative than to continue retaliatory measures, and the free movement of goods and services became thoroughly disrupted.

In addition to the nationalistic protectionism fostered by worldwide depression, there was a cumulative growth of national military insecurity during the 1930's, leading to further attempts at self-sufficiency. As Sir Ernest Bovin stated it, "Between the wars we had become accustomed to a vicious circle whereby trade could not flourish because of lack of security, while security was endangered through lack of trade." 21/

The United States early took the lead in attempting to restore world trade movements by the passage of the Reciprocal Trade Agreements Act in 1934 which attempts to lower tariffs by mutual agreement. The passage of the Hawley-Smoot Tariff Act in 1930 had set an all time high for the United States and probably for the world. It was also extremely ill-timed for it set a pattern for retaliation just at the onset of the World depression. "The two cents per pound sugar duty of the Hawley-Smoot Act got translated into duties from three to 15 cents per pound in the different countries of Europe. Some of the European countries raised their wheat duties to more than $1.00 per bushel." 22/ In the United States the farmers of the middle west and plains states have traditionally tended to align themselves

politically with the protectionist industrial East rather than with the cotton and tobacco farmers of the South, though their economic interests clearly lay in the opposite direction.23/ Actually, the number of American farmers directly benefited by the agricultural tariffs is small: growers of such products as flaxseed, walnuts, lemons, wool, figs, dates, and almonds. But most other farmers are buyers of these things. However, the tariff has proven to be the least satisfactory method of protection and other measures have been resorted to.

Relative to 1893, the tariff has declined in importance. Major reductions were made under the General Agreement on Tariffs and Trade at Geneva in 1947; Annecy, France in 1949; and Torquay, England in 1950. The continued rise in the general price level has also served to reduce the effect of all specific tariff duties, and most United States duties are of this nature.

Although the highly successful efforts to reduce tariffs have constituted one of the most constructive programs for restoring a greater amount of world trade, some of the more insidious and not quite so obvious forms of restriction may continue to exist.

Official United States policy, probably more than that of any other nation in the world, continues to be that of freer trade. But even in the United States, practices are condoned and escape clauses are included in treaties and agreements otherwise promoting freer trade, that precludes such policy from operating as it is ideally

intended. As D. Gale Johnson phrased it, "the United States has been somewhat more successful in getting agreement with other nations as to what constitutes an acceptable implementation of ideal trade policy than it has been in getting recognition and acceptance of the implications of the ideal policy as it affects domestic policy." 24/

Since even in a nation committed to a belief in reducing the barriers to the free flow of goods in world trade there exists domestic policies which hamper rather than augment such flows, it might be well to briefly look at some of these policies as they relate to agricultural products.

The result of most of the important United States farm programs is to divorce domestic price levels from foreign or world price levels. To maintain higher domestic price levels it becomes necessary to encourage exports by subsidization and at the same time prevent imports from entering to take advantage of the higher price. Ordinary tariffs, unless extremely high, are the least effective device, and measures giving more control have been inaugurated. The main-tariff restrictions used by the United States may be separated into the following groups. 25/

(a) Export subsidies and dumping - the first legislative authority for export subsidies or export dumping was Section 12 of the Agricultural Adjustment Act of 1933. Most export subsidization is granted under section 32 of Public Law 370, 75th Congress. Additional

authorization has been provided under an amendment to the Commodity Credit Corporation Act and more recently under the Economic Cooperation Act of 1948. Altogether, the authorization is very broad, and permits an export subsidy to be paid on any commodity, being limited only by the funds available. In addition, under the E. C. A. any product declared surplus could not be purchased outside the United States even if the product could be purchased more cheaply elsewhere. The significant impact of such subsidization has been upon the incomes and market position of the producers of similar commodities for export in competing regions. To date, no importing country seems to have imposed an antidumping duty upon United States agricultural exports, though the United States has made it clear on several occasions that it considers export subsidies and bounties paid by other nations as forms of unfair competition. Such subsidies are not only disruptive of trade through preventing other exporting nations from competing in the same markets, but they add to the immobility and adjustment problems of resources used to produce a commodity subject to chronic overproduction and low incomes. Export subsidiaries are used for both wheat and cotton, the prices of both these commodities being supported under the farm program at a higher level than the world market price, despite the fact that a significant proportion of the crop of each must be exported.

(b) Import quotas. The most restrictive of the devices used to limit imports is the quota. Import quotas set an upper limit to the quantity of a commodity that can be imported, the quantities permitted
being allocated among exporters in a fixed and arbitrary manner. Not only are such measures restrictive to the flow of goods, but they promote international ill will through making favoritism possible in the allocation of the quotas. Such quotas being fixed, they usually do not permit changing cost and supply conditions to be reflected in imports.

Two additional variations have also been used. One such variation was the arrangement made with Canada to have that country limit the exports of poultry, apples, and potatoes to the United States in order not to undermine the domestic price support program. Another variation was the licensing of imports by the Department of Agriculture. Such licenses are almost invariably a necessity to any system of import quotas, though they may be used apart from any formal quotas, and as such are somewhat more flexible. Butter, apples, and rice and rice products were the most important agricultural commodities subject to import licenses since World War II.

The President is authorized under Section 22 of the Agricultural Adjustment Act of 1933 and subsequent Acts to impose import quotas of such a nature that there is no real restriction upon the commodities that might be covered. Section 22 has been expanded to impose import quotas on both cotton and wheat and flour and under the Sugar Act of 1948 imports of that commodity are allotted according to quotas.

(c) Excise Taxes - Protective excise taxes can be imposed under the Internal Revenue Code and may take the form of a tax on the importation but not the domestic production of a given commodity or a
tax levied on first processing or domestic sale. The processing
taxes are usually placed upon commodities not produced in a signifi­
cant volume in the United States. In addition, excise taxes may
be imposed under Section 22.

None of these taxes, except on sugar, is complementary to a do­
mestic farm support program. They have been mainly levied on fats
and oils as protection against foreign competition with domestic
oils, particularly cottonseed and soybean oils and lard.

(d) Tariff Quotas - the tariff quota is not so restrictive as
an absolute quota for it limits only the quantity of a product that
can be imported at reduced tariff rates. Most of the tariff quotas
are on agricultural products including cattle, butter, potatoes,
shelled walnuts, milk and cream, and thus appear to be a means used
by the Department of State to make tariff reductions under the trade
agreement program more acceptable to the farm groups. For if a tar­
iff reduction is likely to lead to a large increase in imports, the
tariff quota serves as a means of reducing the impact. However, such
quotas are disruptive of trade, for tariff reductions are not only
in part nullified, but a rush of products across the border is en­
couraged at the beginning of each new quota period. This adds to
price instability rather than reducing it.

All of these primarily non-tariff trade barriers are the result
of trying to maintain the wedge between higher domestic farm prices
and those outside the nation. Such measures, though, hardly seem
to be the most fitting solution to the problem of how to attain
greater stability of agricultural income and still contribute to
greater world economic relations and world peace. Even such a legis-
lative measure as the Foreign Assistance Act of 1948 (ERP), designed
primarily to aid the European nations to be able again to become par-
ticipants in a liberal trade policy, contained a section on "Protection
of the Domestic Economy." This section contained three provisions
that led many to wonder about the sincerity of the avowed United
States policy of liberalizing trade.

(1) Petroleum and petroleum products were to be obtained by other
nations outside the United States as much as practicable.

(2) In an attempt to bolster the American flour milling industry
at least 25 percent of all United States wheat transferred under
the Act was to be milled in the United States.

(3) Provision was included for the dumping of surplus agricul-
tural products at price reductions as great as 50 percent below the
domestic market price.

"The problem of conflicting trade and agricultural policy is ex-
tremely serious. Unless the conflict can be reconciled, increasing
economic pressures in the future are likely to reduce the foreign
market for agricultural export commodities, decrease the welfare of
all of us as consumers, and most important, lead to serious inter-
national political and trade conflict." 26/

26/ L. W. Witt, Ibid., p. 175.
Such nationalistic policies affecting trade are certainly not indigenous to the United States, however. In fact the rest of the world has been much slower than the United States in shifting away from restrictionism. At no time since the end of the war have the people of the world been able to throw off their feeling of uncertainty. Fear of a post war depression, food shortages and rationing, and lack of industrial goods have all contributed to uneasiness. The imbalances of international accounts, the huge sterling balances accumulated during the war and held outside Great Britain and the general uneasy international monetary situation have not led to increased confidence. In addition, many nations engaged in reconstruction and beginning industrialization look on protection as essential to furthering their aims. Not only are these factors, which are conducive to continued trade and monetary controls, an inherent part of the immediate postwar economy, but there also appears to be a long run trend for additional stress to be laid on social considerations such as full employment, social security and economic development. These were formerly considered desirable by-products of economic activity, but now are coming to rank as prime objectives of policy. 27/ Such objectives of social policy must of necessity be pursued nationally, and if the world uncertainties continue there will be additional pressures for maintenance of trade and monetary controls to insure the success of the programs in isolation.

"The real alternatives at the present time, therefore, are on the one hand to accept these pressures for national self-sufficiency 27/ Candler, J.B. and Stevenson, A., op. cit., p. 64.
as a necessary condition of achieving an equitable and stable organization of economic activity, or, on the other hand, to devise instruments of international economic operation which will enable governments to pursue their national policies without sacrificing the gains of international specialization." 28/
State Trading

In pointing out the disruptive influences on the free movement of international trade, state trading cannot be omitted. In fact, one writer has stated that the problem of economic relations between free-market economies and those whose foreign trade is fully controlled by the state is the most important single matter affecting the future of the world economy. However, the trade may not be fully controlled and may vary from regulation or control of some small segment of the economy, to the place where everything that enters or leaves the country is bought or sold by government agency. Thus, the Canadian Wheat Board, a government agency, has a monopoly in the marketing of Canadian wheat, and in England the government took over the purchasing of cotton after closing the Liverpool cotton exchange, while in Russia all trade is completely government controlled. With America committed to a policy of helping to establish as wide an area as possible of multilateral free-enterprise trade, trade with a nation whose external trade policy is so closely integrated with the internal policy that it must be closely controlled presents a distinct obstacle. Under such conditions bilateralism seems to be an indispensable feature. Historical evidence points to the fact that it is in the nature of state-controlled trade that it cannot be divorced from political considerations. Where a state monopolizes the business of exporting a commodity, any agreements to remove quotas, tariffs, and other controls could be made meaningless, for exports

could be restricted merely by refusing to sell, or one country could be favored over another in making sales. The total influence that such a state monopoly could exert upon world markets would, of course, depend upon its importance as a supplier of the goods concerned. Similarly, one large state buying agency may affect appreciably a world market.

The extension of the Russian sphere of influence over much of Eastern Europe with its resultant control over trade will undoubtedly decrease the normal flow of goods between the east and west of Europe, forcing that area to make adjustments. In the case of Russia, where all imports and exports are in the hands of the government, rules that are designed to expand trade and insure equality of treatment on the part of other nations do not apply. As Claire Wilcox puts it,

"Purchases and sales can be expanded or contracted almost at will; they can be shifted from one market to another without warning; all decisions as to the volume and direction of trade become a matter of public policy. As a method of obtaining economic advantage, discrimination becomes inevitable; as a method of exerting political pressure, it is always readily at hand. And more than this, officials who buy and those who sell will not be strangers; where there is power on one side of the market it will be used to force advantageous terms on the other; Collectivism thus makes for bilateralism in international trade." 30/

The dangers of state trading inhibiting multilateral trade have been recognized in the proposed I.T.O. charter as being as great as other nationalistic controls. Provisions have been included to attempt to bring state trading nations under the principles of fair dealing in international commerce.
Conflict of Producer and Consumer Interests

Inherent in any profit-motivated market is a conflict of interests between producers and consumers and the international market for agricultural products is no exception. The producers are naturally interested in selling at a price that will yield maximum profit while consumers desire to purchase at the lowest cost possible. It has been stated that the entrepreneur is essentially interested in scarcity. "Because it is his social function to supply the world as well as he can with a certain thing, therefore he reads the world's being so well supplied with it that he shall be able to get little or nothing for supplying more." 31/ Thus, the producer finds himself in a dilemma, whereby the advance in well-being desired and pursued by all becomes an object of dread to each one in that particular department in which it is his business to promote it. The doctrine of scarcity though privately true, is always publicly false. Nevertheless, where possible, producers have attempted to combine with a view to exploiting the consumer, as later discussion of past control schemes will show. During the interwar period, the result has been termed an "economic wonderland that has produced this collection of mutually contradictory control schemes." For the Mad-Hatter who presides over this party is named Price-Profit, and the innocent Alice who asks why consumers must go without when producers have too much will be rudely answered with the word 'Disequilibrium' and the same answer.

must suffice for those who wonder why pigs are encouraged to multiply in England and destroyed by the million in America, or why Japanese tax themselves to produce expensive wheat while Canadian farmers burn it for fuel. 32/

To the extent that producer control is effective greater price stability may result, and it has been often stated that such stability is in the interests of consumers. However, such assertions have seldom originated with consumers. While the wide price fluctuations characteristic of free raw commodity markets benefit neither producers or consumers on the average, it is also true that "ultimate consumers, whose money incomes may have fallen during a depression by, say, 50 percent, do not desire to have the prices of necessities they buy "stabilized" at or near prosperity levels." 33/

In the past when producers have been able to exert some market control, consideration was sometimes given to intermediate consumers usually great manufacturing industries, but the final consumers were never adequately represented. Even where consumer countries were represented, it was not necessarily the same as the representation of consumer interests.

The problem of resolving conflicting producer and consumer interests is more complex than merely preventing price exploitation of the consumers, however. Selecting suitable persons to represent the ultimate consumer in the world at large presents some difficulty. In

33/ Staley, op. cit., p. 103.
addition there are such problems as what the public expects of the producers, and who should bear the risks of measures decided upon by consumers with more than advisory votes.

Staley feels that the public ideal in controlling raw commodity marketing is to achieve the same results as those which would be obtained by ideal operation of the free competitive price system, but with the mitigation of its wastes and rigors, and attention to human elements not taken into account by pecuniary calculation. The private ideal for profit-seeking producers calls for the maximum exploitation of monopoly power consistent with preserving that power. 34/

Where it has been possible for producers to exert some market control either privately or with government sanction or aid, the private ideal has always taken precedence. Although the development of the 1930's was in the direction of more effective organization and more moderate policies the latter trend was rather the result of a realization of marketing limitations than of the emergence of consumer representation in the control schemes. 35/

CHAPTER IV

SUMMARY OF PART I AND SCOPE OF PRESENT STUDY

The needs of modern industrial areas for raw materials, foods, and the requirements of an ever-expanding standard of living make international trade in food and agricultural products mandatory if maximum well-being is to be achieved. Problems present themselves, however, in bringing about the free flow of goods. Areas with surplus resources and productive knowledge are geographically and politically separated from those with deficits. The characteristics of agricultural production itself often prevent the market system from operating equitably, resulting in fluctuations in the supply and in the incomes of producers. In addition, there are the disruptive effects of dislocations arising from wars, shifts in demand, competition of substitutes and the dynamic influence of technological innovations. These factors tend to encourage producers to better their position by attempting controls, or by favoring the imposition of political rigidities which have usually been restrictive and in the long run inimical to consumers' interests. And finally, the increasing segments of international trade which are coming under state control have raised serious conjecture as to the future relative bargaining position of traders in the free trade segments.

Several schemes have been proposed in the past as a means for bringing about the smoother functioning of international trade markets for agricultural products and raw materials. A few agreements or arrangements have actually been operative with varying degrees of
success. It is the purpose of the remainder of this study to view the plans that have been proposed and those agreements which have been put into effect in the past, and when possible, to point out the measure of success they obtained in providing orderliness and equil- brium in otherwise chaotic raw materials markets in the interwar period. The question of whether international or inter-governmental commodity agreements offer a hope of improving world marketing conditions in the postwar period will be studied, using as a frame of reference the principles laid down by the proposed Charter for an International Trade Organization. Empirically, the International Wheat Agreement of 1949, which incorporated many of the insights gained in the interwar period, and was the first agreement to follow in the wake of the I.T.O. Charter, will be examined with a view to determin- ing to what extent its modifications make such agreements a tech- nique worthy of wider usage.
PART II

INTERNATIONAL COMMODITY AGREEMENTS:

HISTORICAL PERSPECTIVE
In general, most of the commodity agreements of the interwar period paid little attention to expansionist measures. This was because they usually arose in a period of surplus stocks in an attempt to relieve current difficulties. The early attempts at relief were conducted by private producers or as national schemes, and frequently became intergovernmental only after these prior attempts at other types of control had failed. These early efforts were largely incoordinated, no attempt being made to consult with other parties concerned or to relate the action being taken on various commodities. But while the disadvantageous position of the raw materials producer became apparent, it became increasingly obvious that the arrangements through which alleviation was attempted left much to be desired, both in terms of the degree of success obtained for producers and the effect on importing economies.

It was thus not unusual that beginning in the late 1920's raw material problems should gain international attention and a body of thought in regard to primary commodity agreements should start to accumulate.

One of the earliest statements of policy came out of the World Economic Conference of 1927, and dealt with international industrial agreements, intergovernmental agreements having not achieved much

36/ Mason, E.S., Controlling World Trade, New York, 1946, p. 152.
importance at that time. The Conference stated that the phenomenon of such agreements was a development which had to be recognized and which, from the practical point of view, should be considered good or bad according to the spirit which rules the constitution and the operation of the agreements, and in particular according to the measure in which those directing them are actuated by a sense of the general interest. Since the field of operation of the agreements is usually limited, the Conference did not consider them a form of organization which, by themselves, could remove the causes of troubles from which the economic life of the world and particularly of Europe was suffering. However, it was considered that there were certain possible advantages to be derived from the use of such agreements. But the Report of the Conference went on to state that:

"Nevertheless, the Conference considers, on the other hand, that such agreements, if they encourage monopolistic tendencies and the application of unsound business methods, may check technical progress in production and involve dangers to the legitimate interests of important sections of society and of particular countries."

"It consequently appears to the Conference that it is entirely necessary that agreements should not lead to an artificial rise in prices which would injure consumers, and that they should give due consideration to the interests of the workers. It is further necessary that they should not either in intention or effect, restrict the supply to any particular country of raw materials or basic products, or without just cause create unequal conditions between the finishing industries of the consuming and producing countries or other countries situated in the same conditions. Nor must they have for their object or effect any reduction in the economic equipment which any nation considers indispensable, nor should they stereotype the present position of production, whether from the point of view of technical progress or of the distribution of industries among the various countries in accordance with the necessities imposed upon each by its economic development and the growth of its population. 37/"

The Conference went on record as favoring continued study of the "forms of international industrial cooperation and their effects upon technical progress, the development of production conditions of labor, the situation as regards supplies, and the movement of prices, seeking in this connection the collaboration of the various governments." It further favored publishing from time to time information with regard to agreements, which it felt would help to secure public support for beneficial agreements and prevent the growth of abusive ones.

By the time of the London Monetary and Economic Conference of 1933, intergovernmental commodity control schemes had come to be regarded as a form of international industrial agreement clearly distinct from, and in many respects preferable to, producers' cartel agreements, especially as a means of regulating the production and marketing of foodstuffs and raw materials.38/ At this conference, one of its subcommissions submitted a report which was approved, which defined in greater detail the principles that should govern intergovernmental schemes. It was felt that in choosing a product for international control, the greatest number of producers were to be included, and the product must lend itself as much as possible to international regulation, and be of a type in which there was such a

38/ International Labor Office, Intergovernmental Commodity Agreements, Montreal, 1943, p. xix.
excess of production or stocks as to call for special concerted action. It was not the intention of the Conference to set up the details of agreements but only to approve the general principles on which they should be based, leaving the former to the individual countries concerned. It was considered that any agreement

"... should be fair to all parties, both producers and consumers it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing cooperation of consuming interests in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices." 39/

The approval and recommendations of the Monetary and Economic Conference probably influenced considerably the development of intergovernmental schemes immediately following the Conference, though little influence seems to have been exerted on many of the producer-initiated agreements.

As previously mentioned, the period of the 1930's was marked by wide fluctuations in raw material prices and the incomes of producers all over the world. In 1937 the Council of the League of Nations appointed a Committee for the Study of the Problem of Raw Materials which, in its final report, devoted a section to international regulation schemes relating to the supply of raw materials. The report pointed out that "the earliest regulation schemes were designed solely to raise prices and were operated in such a way as to intensify or relax the restriction on the production or export of the regulated

commodity in accordance with the price of that commodity at prede-
termined dates." It was further observed that later schemes inten-
sified or relaxed restriction on the basis of the volume of available
stocks rather than to the current price. The avowed object of the
schemes was "to reduce stocks to a normal level, to maintain them at
that level, and to maintain a fair and equitable price for reasonably
efficient producers." It was felt that insofar as international re-
gulation schemes restore purchasing power to producers whose incomes
had fallen, but who ordinarily were large purchasers of imported goods,
they would be welcomed as a valuable means of restoring international
trade. It appeared to the Committee that, "thanks to the Governmental
control of these schemes the power of determining the degree of res-
triction is placed in the hands of authorities who can look beyond
the immediate interests of the producers to their ultimate interests
and also to those of the world at large." It was therefore recommen-
ded that governments should give serious consideration to a suggest-
ion that they should insist upon themselves assuming control of all
such schemes.

The Committee gave brief consideration to the use of buffer
stocks of regulated commodities as a means of overcoming the effects
of instability of market supplies. Recognizing that there would be
many difficulties to surmount in framing such a scheme, the Committee
nevertheless felt that the proposal was one which deserved the most
serious consideration of all bodies controlling regulation schemes.
In summing up, the Committee stated that:

"... while it would not wish to state that all regulation schemes in the past have been well conceived or beneficial to all the interests concerned, it considers that the governmental regulation schemes relating to raw materials now in operation have, generally speaking, been an important factor in the improvement in economic conditions experienced in international trade. But it feels that it is very important that consuming countries should be given every assurance that the schemes will be operated in a reasonable manner. With this end in view, it considers that every such scheme should make adequate provision for effective representation of consumers and for publicity, should be subject to the greatest degree of governmental supervision which the circumstances admit, and should be so framed that the controlling body is placed in a position to take immediate and effective action in the event of an unreasonable rise of prices or other effects prejudicial to the consumers." 40/

Confining their discussion largely to a regional basis and being concerned mainly with the wartime emergency aspects of commodity policy, the Second and Third Meetings of Ministers of Foreign Affairs of the American Republics adopted resolutions dealing with the use of commodity agreements. The Second Meeting, held in Havana in July, 1940 recommended "the development of commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned." 41/ In January, 1942 the Third Meeting was held in Rio de Janeiro at which time the declaration was made that "to raise the standard of living of the people, the economic policy of the American nations must be founded upon a broad and complete utilization of their natural resources and directed toward a greater industrialization of those raw materials


which present favorable and permanent economic possibilities both as to production and markets; and at the same time it shall be the policy to seek to improve continental coordination through international agreements." 42/

The Second Inter-American Conference of Agriculture, meeting in Mexico City from July 6-16, 1942 concerned itself with the possibility of the recurrence of the problem of agricultural surpluses in the Western Hemisphere in the postwar period, and feared that dislocations arising out of the war would only serve to intensify the problem later. Looking toward the peacetime period the Conference recommended:

"To endorse the approach wherever applicable, to the solution of surplus commodity problems through international agreements which (a) provide for adjustment of production or market supply in the individual exporting countries, (b) assure individual exporting countries of fair shares of the available market at prices reasonably remunerative to efficient producers, giving appropriate consideration to the historical position of the producing and exporting countries, (c) assure importing countries of adequate supplies at prices fair to consumers."

"To consider that, in the postwar years, the problem of disequilibrium between the available supplies and market requirements will persist, and"

"To urge that the solution of this problem be approached through international collaboration of the kind referred to herein between not only producing and consuming countries of this Hemisphere, but also the producing and consuming countries of the entire world."

The subject of commodity agreements was again reviewed at the United Nations Conference on Food and Agriculture held at Hot Springs

Virginia, in May-June, 1943. No subject introduced at the Hot Springs Conference led to more debate than this one, and the agreement reached in the Text of the Final Act was far from conclusive.\(^{43/}\)

The report of the Conference distinguished three classes of functional disorders of international commodity distribution: short-period fluctuations of prices; disorders which are a concomitant of general cyclical depression; and disorders which are the outcome of structural modifications in relations between existing productive capacity and the need of society for certain commodities or groups of commodities. On a point that was stressed repeatedly throughout the Conference there was unanimity, namely, "that the world, after the war, should follow a bold policy of economic expansion instead of the timid regime of scarcity which characterised the 1930's." However, on the nature of the international commodity regulation which is desirable there was considerable difference of opinion. One group of delegates envisaged future arrangements chiefly in the field of the establishment and operation of buffer stocks, managed with a view, not to maintaining fixed prices, but rather to eliminating perverse fluctuations from the long-term trend. Resort should be had to quantitative controls only in exceptional cases after all other expedients had been tried. Another group of delegates, although not denying that in the past quantitative controls had sometimes shown a

restrictive tendency, felt that it was quite possible for an expansionist policy to be pursued within the framework of regulation. This group felt that buffer stocks without the backing of control arrangements would not prevent the disastrous situations to which agricultural countries have been subjected periodically.

It developed, however, that there was an important area of agreement regarding the need for international arrangements and for the establishment of principles and organization for the guidance of their conduct. The recommendations were set forth in Resolution XXV as follows:

"Excessive short-term movements in the prices of food and agricultural commodities are an obstacle to the orderly conduct of their production and distribution;

Extreme fluctuations of the prices of food and agricultural products aggravate general deflationary and inflationary tendencies, which are injurious to producers and consumers alike;

The mitigation of these influences would promote the objectives of an expansionist policy;

Changes in the scale and character of production to meet more effectively the world's need for food and agricultural products may in certain instances require a period of transition and international cooperation to aid producers in making necessary readjustments in their productive organization;

International commodity arrangements may play a useful part in the advancement of these ends but further study is necessary to establish the precise forms which these arrangements should take and whether and to what extent regulation of production may be needed;

The United Nations Conference on Food and Agriculture recommends:

That international commodity arrangements should be designed so as to promote the expansion of an orderly world economy;

That, to this end, a body of broad principles should, through further international discussion, be agreed upon regarding the formulation, the provisions, and the administration of such international commodity arrangements as may be deemed feasible and desirable and should include assurance that:

(a) Such arrangements will include effective representation of consumers as well as producers;

(b) Increasing opportunities will be afforded for supplying consumption needs from the most efficient sources of production at prices fair to both consumers and producers and with due regard to
such transitional adjustments in production as may be required to prevent serious economic and social dislocations;

(c) Adequate reserves will be maintained to meet all consumption needs;

(d) Provision will be made, when applicable, for the orderly disposal of surpluses;

That international organization should be created at an early date to study the feasibility and desirability of such arrangements with reference to individual commodities and, in appropriate cases, to initiate or review such arrangements to be entered into between governments, and to guide and coordinate the operations of such arrangements in accordance with agreed principles, maintaining close relations with such programs as may be undertaken in other fields of international economic activity to the end that the objective of raising consumption levels of all peoples may be most effectively served." 44/

The next major pronouncement of an official nature appeared in the United States Department of State publication, Proposals for the Expansion of World Trade and Employment, issued December 6, 1945, which contained, in Chapter V, proposals concerning intergovernmental commodity arrangements. 45/ The recommendations contained therein are limited to primary products because production and trade in these commodities are subject to peculiar difficulties that "may have such widespread repercussions as to prejudice the prospect of the general policy of economic expansion." Provision is made for the establishment of study groups to investigate any special difficulties that exist or are expected to arise regarding any commodity. The setting up of an International Trade Organization was proposed, and the study groups would consist of interested member countries of the


45/ United States Department of State, Proposals for Expansion of World Trade and Employment, Publication 2411, 1945, Ch. V., passim.
Organization. If investigation disclosed a chronic problem of excess supplies, the formation of an intergovernmental commodity agreement for the particular commodity would be permitted. However, the statement of objectives regards such agreements as transitional to "afford opportunities for the orderly solution of particular commodity problems by agreement between member governments upon a program of overall economic adjustments designed to promote a shift of resources and manpower out of over-expanded industries into new and productive occupations." Members of the International Trade Organization would be expected to refrain from entering into any agreement until it was determined, in accordance with procedures approved by the Organization that such an agreement was necessary. The necessary prerequisites are that:

(a) A burdensome surplus of the product concerned has developed or is developing in international trade and is accompanied by widespread distress to small producers accounting for a substantial proportion of the total output and that these conditions cannot be corrected by the normal play of competitive forces because, in the case of the product concerned, a substantial reduction of price leads neither to a significant increase in consumption nor to a significant decrease in production; or

(b) Widespread unemployment, unrelated to general business conditions, has developed or is developing in respect of the industry concerned, and that such unemployment cannot be corrected by the normal play of competitive forces rapidly enough to prevent widespread and undue hardship to workers because, in the case of the industry concerned, (i) a substantial reduction of price does not lead to a significant increase in consumption but leads, instead, to the reduction of employment, and (ii) the resulting unemployment cannot be remedied by normal process of reallocation.

Also, before entering into an agreement, members would be expected to formulate and adopt "a program of economic adjustment believed to be adequate to insure substantial progress toward solution of the problem within the time limits of the agreement." The maximum
initial time limit suggested in the Proposals is five years, with
the renewal contingent upon substantial progress having been made
toward a solution of the problem.

Regarding the operation of intergovernmental commodity agree­
ments the following principles were given:

(a) The agreements should be open to accession by any member on
terms not less favorable than those accorded to members parties
thereto.

(b) The members adhering to such agreements which are largely
dependent for consumption on imports of the commodity involved should,
in any determinations made relating to the regulation of prices,
trade, stocks, or production, have together a voice equal to those
largely interested in obtaining export markets for their production.

(c) The agreements should, when necessary, contain provisions
for assuring the availability of supplies adequate at all times for
world consumption requirements at reasonable prices.

(d) The agreements should, with due regard to the transitional
need for preventing serious economic and social dislocation, make
appropriate provision to afford increasing opportunities for satis­
fying world requirements from sources from which such requirements
can be supplied most effectively.

Intergovernmental commodity agreements as conceived under the
Proposals, would not be designed to cover agreements relating to the
protection of public morals; the protection of human, animal or
plant life or health; the conservation of reserves of exhaustible
natural resources; the control of international monopoly situations;
or the equitable distribution of commodities in short supply. It was
expected that full publicity would be given to any commodity agree­
ment proposed or concluded, and to the nature and development of
measures adopted to correct the underlying situation which gave rise
to the agreement.

In summarizing the policy viewpoint of the United States De­
partment of State regarding commodity agreements, it appears that
such agreements were considered only transitional measures to be used only so long as necessary to permit a transfer of resources out of the distressed areas. Agreements would be limited by confining them to a few basic raw material industries where persistent overproduction or unemployment occasion widespread distress. It was further desired that all interested countries and economic groups should be adequately represented. It was this set of policies which formed the basis for international discussion and the resultant emergence of the Proposed Charter for an International Trade Organization containing a chapter embodying the principles, objectives, and methods of administration of commodity agreements in a multilateral world trade economy. It is this section of the I.T.O. Charter which will be used as a frame of reference in this study.
CHAPTER VI

ALTERNATIVE STABILIZATION AND SURPLUS CONTROL PLANS

Since World War I and particularly since 1930 many schemes have been proposed to combat the problem of raw material surpluses and introduce an element of stability into the commodity markets. The schemes have varied in pattern depending on the purpose their proponents had in mind - controlling surpluses by controlling production, serving a contracyclical purpose, reducing year-to-year price fluctuations, stockpiling against disaster, etc. On the whole, however, most of the plans appear to be variations, to a more or less significant degree, of a few general types.

Buffer Stocks

In general, a buffer stock scheme envisages a designated agency, either national or international, which is authorized to make purchases to add to stocks when the price of the commodity falls to a specified level, and sell from stocks when the price rises to a specified maximum level. In this way it is hoped, without regulating production or exports, to confine the price within a range conforming to the demand and supply situation. While some advocates feel that the function of buffer stocks would be limited to the control of seasonal and short-term price fluctuations and the maintenance of adequate reserve stocks, others would combine short period stabilization of prices with a long period price policy which balances

supply and demand. While some consideration has been given to buffer stocks at the national level, for adequate stabilization of internationally traded commodities an international buffer stock authority is usually proposed. Such a scheme would thus influence the total commercial supply of a commodity, and the emphasis is placed on price stability rather than income stability. Outside of the many technical problems of storage and market operations, there are several significant considerations upon which the success of such a scheme would depend.

(a) Buying and Selling Prices - price ranges established by a large international buffer stock scheme would have to be acceptable to all the major sources of supply. If the prices set caused a decline in production or export relative to other sources of supply there would be a tendency on the part of some producing countries to remain outside the scheme and take advantage of it, or the authorities would be compelled to maintain a price that did not correspond to demand and supply conditions. Under periods of stress, the scheme would be hard pressed if it attempted to maintain its set prices, for it would be in danger of folding up through stock exhaustion during extreme shortages, or accumulating enormous stocks involving large financial outlays during large surpluses, unless of course, the buying and selling prices were shifted, which would reduce its effectiveness as a price stabilization device. But it

47/ Feis, H., Sinews of Peace, p. 233 and Johnson, D.C., Trade and Agriculture, p. 185.
48/ Feis, H., op. cit., p. 234.
would seem that some degree of temporary stability would have to be sacrificed to ensure the long run success of the scheme. One writer has suggested that the controlling agency have such flexibility as to review the prices every six to 12 months.\footnote{Johnson, D.G., \textit{op. cit.}, p. 138.} In any event, the setting of buying and selling prices would be a problem, and the use of a long-run equilibrium price would not seem to be the answer.

(b) Financing the Scheme - the means of financing such a plan would depend on whether it was a national or international agency. Assuming an international agency dealing in the commodities of greatest importance such as wheat, cotton, sugar, rubber, wool, and coffee, the amount of funds necessary would be very large. It would be very difficult to achieve agreement among the contributing governments as to the division of the financial risk, if financing was to be done by means of capital subscriptions of member governments. Attempts to avoid this problem are implicit in the suggestions of other investigators, some favor financing by issuing bonds, others feel the scheme could be self-financing through differentials greater than cost between buying and selling prices.

If the buffer stocks were handled by individual countries rather than an international agency, the financial burden and the amount of risk involved would be proportional to the size of the stocks held. While it would seem that governments might be more willing to accumulate and pay for stocks over which they had control, if the stock was
part of a coordinated international operation, the failure of any one country to live up to its obligation could wreck the plan.

(c) Political and Interest Group Pressures - Even after a buffer stock scheme had been set up, the authorities would still be faced with the problem of how much freedom of action would be permitted in their operations. It might be suspected that there would be considerable producer resistance to any action that would result in a price decline. This has been apparent in the United States domestic support program where the inauguration of the sliding scale for farm prices has been continually postponed. On the other hand, successful pressure to use the scheme as a price raising device would either necessitate production control or result in the accumulation of large stocks with graver maladjustments than if the scheme had not operated. The resistance to lowering prices is powerful where technological improvements have resulted in lower production costs, but where producers still wish to maintain prices at former levels. 50/

Closely allied to these pressures is the conflict that would likely arise between national schemes to aid producers and an international buffer stock. Because of the divergence that would exist between prices in different countries as a result of national schemes, further controls would be necessary to avoid accumulation of stocks by either the buffer stock or the national government whenever the prices set by each differed.

50/ Davis, J.S., International Commodity Agreements, p. 34.
(d) Competition of Synthetic and Substitute Products - Since the demand schedule for each commodity is affected by its price relationships with competing commodities, buffer stock operations for a particular product could be vulnerable unless they also included close substitutes. This would not only tend to enlarge upon the necessary area to be included by the buffer stocks, but would add to the difficulty of determining a correct price relative to the demand and supply situation. If separate buffer stocks were set up for competing commodities, such stocks might find themselves in competition with each other. 51/

(e) Single Commodity or Multiple Commodity Approach - A buffer stock plan could be set up with a separate agency for each commodity or as a multiple-commodity organization. The latter type of organization could operate a coordinated series of separate buffer stocks for each commodity or could buy and sell multiple-commodity units. Each approach has its advocates as will be shown in the descriptions of some of the other schemes which follow. A buffer stock operated in conjunction with a commodity agreement, as recommended recently by a group of United Nations experts 52/ would almost necessarily adopt the single commodity approach, while an autonomous buffer stock scheme could follow any one of the methods.

51/ Feis, I., op. cit., p. 235.
It is obvious from the literature on buffer stocks that there is little unanimity in the way these problems are to be solved. In addition, other problems present themselves such as when buying and selling operations should be started, what commodities should be included and whether futures trading should be permitted. Attempts to present a solution to one or more of these problems often constitute the essential difference between many of the variations of the buffer stock principle that have been advocated.
In 1938, Benjamin Graham proposed a plan which would attempt to synthesize three ideas, (a) storage of surpluses for future need, (b) the use of basic commodities as the backing for money, and (c) the stabilization of the price level. The state would acquire and store composite units of basic raw materials when there was a surplus. They would be paid for in currency issued in exchange for them, and this currency would thus be backed by and convertible into tangible, basic goods in the form of the stored commodity units. The composite group of commodities would thus have the same monetary status as was formerly given to gold. The commodity units would be acquired whenever obtainable at a small discount below the previously established value for the unit. If the composite price of the commodities rose above the established standard, currency would be automatically redeemed for the commodity units, which would then flow into consumption.

In 1944 Graham published another plan in which he extended his commodity reserve proposal to be international in scope, with the aim of "achieving the goals of expansion and reasonable stability."

The proposal contemplated (a) approximate stabilization by an

54/ Ibid., p. 213.
55/ Ibid., p. 59.
international agency of a composite international price index of a basket of 15 or more primary commodities important in international trade and, (b) special price support by way of a series of international commodity agreements for any individual commodity among the 15 or more, if the specific commodity is in chronic oversupply or "in an especially weak position."

An international agency such as an International Commodity Corporation would purchase, hold and sell primary commodities on a composite or unit basis. The relative quantities of the products in the unit would correspond to their world production and export. The corporation would operate in conjunction with an International Monetary Fund from which it would obtain its capital.57/ The monetary funds necessary to finance purchases of commodity units would be created, not borrowed from existing world supplies of money and credit.58/ A nation selling commodities to the corporation would receive a deposit credit in the International Monetary Fund which its central bank could then use as monetary reserves. It was thus expected that purchasing operations would increase world monetary supplies and selling operations would reduce them. Once the plan was under way, operations would be automatic, with relatively little scope for administrative decision contemplated. The aim of such a scheme would be the reduction of the amplitude of fluctuation of economic cycles rather than reducing annual and seasonal fluctuations in the prices of the commodities.

57/ Ibid., p. 42.
58/ Ibid., p. 88.
The commodities proposed for inclusion in the unit were: wheat, corn, cotton, wool, rubber, coffee, tea, sugar, tobacco, petroleum, coal, wood pulp, pig iron, copper, and tin. The actual products would not be traded, the transaction being either in warehouse receipts or futures contracts. The aggregate price of the unit and not the prices of the individual commodities would be stabilized. Purchases would be made when the weighted average price of the unit fell to 95 percent of an agreed base price, and sales made when the composite price advanced to 105 percent of the base.\textsuperscript{59} Thus, general price level stability is the objective, but at the same time provision is made for separate buffer stocks as an auxiliary support for especially weak commodities. Agreements concerning these commodities would come into effect "only when the commodity in question had fallen to less than 80 percent of its moving 10-year average price, or a provisional base price in lieu thereof and would be suspended whenever the price has remained above 100 percent of its average (or base) for a full year." \textsuperscript{60} However, individual commodity price stabilization is given only a minor role in Graham's total plan.

In regard to the size of the stockpile that would be necessary to maintain the composite price level at 95 percent of normal, Graham hesitated to make any precise calculation. He did, however, suggest that "one-seventh of a year's production would appear to be the maximum absorption necessary to maintain the price level over a three-

\textsuperscript{59} Ibid., pp. 42-43.
\textsuperscript{60} Ibid., p. 52.
year period," and that "it seems doubtful that such purchases would have to be made for three years in succession." He estimated that the funds necessary to operate the scheme would be five to seven billion dollars at 1937 prices, which, even if double that amount at today's prices, would not be a large amount relative to the world's total money supply. However, he did not contemplate that any limit be put on the amount of purchases so long as they were necessary to support the price index, and when sales were necessary, they would be limited only by the supply on hand. It would not always be necessary to purchase spot commodities. On a buying phase of the plan futures may be purchased rather than spot commodities whenever the latter stand at a premium over futures. On a selling phase spot commodities in the stockpile could be exchanged for futures whenever the spot price exceeded the futures price. The main purpose in permitting dealings in futures would be to overcome extreme price advances which might arise due to withdrawing a commodity in short supply from the market and storing it along with other commodities in the unit. By selling the cash crop and buying futures, such a shortage might even be alleviated. Such a use of futures and in fact, the ability to readily buy and sell the numerous commodities that make up the commodity unit implies the availability of a futures market and active commodity exchanges. Little is known of the degree

61/ Ibid., p. 48.
62/ Ibid., p. 46.
63/ Johnson, ibid., op. cit., p. 150.
of price uncertainty necessary to the profitable operation of such exchanges over the long run. It is not inconceivable that the continuation of active buying and selling on such exchanges might be influenced by the measure of price stability achieved by the commodity reserve program.

The commodity reserve plan has had many critics and followers since it was first advocated. The strongest criticisms have related to the currency creation aspect, but apart from this its proponents find several merits in its commodity stockpiling functions. The main advantage is that while stabilizing the price of the commodity unit, it would not directly control the price of any particular commodity, therefore avoiding the economic difficulties inherent in single commodity control. Thus, it would be designed not only to prevent the absolute fall in the average price of raw materials during a depression but also to prevent most of the shift in the average price of raw materials relative to the price of finished products.\(^{64}\)

It should be pointed out, however, that in promoting general price level stability, a virtue is made of individual price instability, and therefore such a plan is subject to the economic disadvantages of such instability. In the price decline between the 15-month period, September-November 1927-1928 and June 1930, the 15 commodity index declined by 24 percent, but there were four of the commodities which declined by 40 percent or more; three which declined by 25-40

\(^{64}\) Ibid., p. 145.
four which declined by 10-25 percent. By having buffer stock operations conform to fluctuations in the price of individual commodities the advocates of a composite commodity reserve feel that the contracyclical purpose is defeated, for such erratic fluctuations can occur at any stage in the economic cycle. However, those who believe in individual commodity reserves feel that controlling a major price decline in a particular commodity would tend to check a depression in that industry and prevent the necessity for further contra-depression activity for other commodities.

The composite commodity reserve proposal is believed by some to reduce the possible area of political manipulation, which was one of the main dangers of individual buffer stocks. Other than the advantage to be gained by price stabilization, producer groups can gain only by raising the price of the unit or changing the weights within the unit. Increasing the price of the unit would make it necessary to expand the volume of currency in circulation, and since the prices of the basic raw materials would rise, so would the price of finished goods. The only gains to producer groups would result from the stickiness of some costs such as wages and rents, and at best this would likely be temporary. Changing the proportion of a commodity in the unit would result in gain during periods of stock accumulation being offset by increased sales and lower prices during the time of

66/ Ibid., pp. 122-123.
67/ Johnson, D.C., op. cit., p. 147.
disposal. In addition, whatever one group of raw material producers gained by changing weights would be offset by a loss to other groups. Thus, counterbalancing pressures arise which would not arise in a single commodity buffer stocks program where one group could sell at a higher price without a direct loss to other raw material groups.68/

It is also felt by the advocates of the commodity reserve proposal that there would be less tendency for excessive stock accumulations. Single commodity buffer stocks would tend to increase the holdings of commodities subject to secularly diminishing relative prices, whereas a commodity reserve would not be selective in this fashion due to the fixed proportions in which stocks would be purchased and sold.

A commodity reserve program would tend to restrict consumption during depressions and expand it during prosperity and thus could possibly worsen the position of the consumer during a depression. The degree to which this would be so would depend on its ability to perform a countercyclical function, i.e. on the extent of the multiplier effect as a result of the reserve's buying.

A commodity reserve plan would be subject to the same problem faced by any attempt to stabilize a segment of the price level. If all other prices are rising due to labor union action or monopoly pricing, the stabilization program would face the possibility of breaking down because of depletion of stocks, or commodity-reserve

68/ Ibid., p. 148.
operations could cause unemployment because of currency liquidation.69/
This difficulty could be avoided, at least in part, by permitting the commodity reserve corporation to shift the range within which it would stabilize prices. As was mentioned for buffer stocks, this would seem to defeat the stabilizing function. But it has been suggested that "changes of two or three percent per year should be adequate to avoid most of the problems related to changes in the relationship of the reserve-unit price to the price of all other goods."70/ Another possible solution suggested would be to permit countries confronted with this difficulty to devalue their currencies, a move which would probably be necessary anyway to maintain equilibrium in their balance of payments.

69/ Ibid., p. 150.
70/ Ibid., p. 151.
Modified Commodity Reserve System

In 1949, K.K. Bennett and Associates of the Stanford Food Research Institute published a comprehensive study of Graham's Commodity Reserve Plan in which a modified Commodity Reserve System was recommended. The modified Commodity Reserve System takes as its objectives the reduction of the amplitude of fluctuations, on a world scale, resulting from the business cycle and in addition, the creation of conditions that would permit expansion of output and per capita consumption of goods throughout the world. The plan would use a 21 commodity unit containing 12 of the 15 commodities suggested by Graham—wheat (and flour), corn, sugar, cotton (raw), wool, tobacco (raw), coffee, tea, rubber, wood pulp, copper, tin (and ore). The additional nine commodities are rice, peanuts, linseed (plus other items in addition to peanuts and linseed if heavier representation of fats and oilseed should be regarded as desirable), cocoa (raw), silk (raw), jute (raw with perhaps burlap and jute sacks), lumber (except pulpwood), hides (cattle), and lead. Graham had included coal, petroleum and pig iron, but they are omitted from the modified Commodity Reserve System because the probable costs of storage appear unduly high. Graham objected to this on the basis that it would change the relative weights of agricultural and non-agricultural commodities in the unit. The amount of each commodity in the unit

72/ Ibid., p. 108.
73/ Ibid., p. 196.
would be determined by its relative value in world trade. The 21 suggested commodities accounted for 26 percent of the total value of world export trade in 1935, and for nearly 44 percent in terms other than manufactured goods.

Bennett rejects Graham's method of financing by currency creation. Instead it was suggested that "there could be national quota contributions to a capital fund and a grant of authority to the Commodity Reserve System to borrow in the several money markets, with the principal burden to be carried by the loan operations on gilt-edged security markets." The funds necessary to finance purchases were estimated at about $12 billion at average 1935-1938 prices, which "might reasonably be forecast at not more than twice this, say $20-$25 billion." The agency could begin purchasing operations only in a nontransitional peacetime recession of such magnitude that the price index of the commodity unit had fallen, on the average for a full calendar month, by 20 percent or more from a 15-month moving average, provided that such a 20 percent fall had occurred with 10 months of the final month included in the moving average, which itself should not include any month of a postwar transitional price decline. Purchasing would be mandatory when, with the same provisos, the price index of the commodity unit had fallen by 35 percent. These criteria would supposedly preclude operations on a slow price decline but force the agency to act when economic circumstances

74/ Ibid., p. 129.
75/ Ibid., p. 146.
became sufficiently serious. "Under such rules a Commodity Reserve System existing, say, in 1919 could not have begun operations during the price decline of 1920-1921, that decline being a transitional one; it would have been obliged to purchase sometime during the middle of 1930 in the great price decline from October 1929 to October 1931; and it would have had the choice of purchasing or not purchasing in the smaller price decline beginning in 1937 and extending through 1930 and into 1939 to the outbreak of World War II." 76 Selling of accumulated stocks "might reasonably be permitted when the guiding price index had risen at least 15 percent above the earlier buying level." It would be obligatory to sell "when the guiding price index had risen 30 percent above the buying level - the speed of rise being ignored." The range of price stabilization is thus much wider than that envisaged by Graham. The plan is "conceived as enduring throughout a single cycle of recession-depression-recovery-boom, but thereafter to be liquidated, revised, or renewed in the light of its experience and performance. Purchases could not be confined to member countries, but could be made anywhere in the world on the rule of buying in the cheapest market.

Since the plan is a multiple-commodity-unit buffer stock it would face many of the same problems mentioned in regard to Graham's scheme. However, the wider range of price fluctuation permitted before operations would be undertaken would give the plan more flexibility and reduce the risk of overaccumulation of stocks. In contrast

76/ Ibid., p. 131.
to individual-commodity price stabilization, individual prices would move at levels and with ranges altogether unspecified and undetermined by the Commodity Reserve System except insofar as purchases and sales of stocks, for the most part on an automatic basis itself largely predictable, would dictate. Producers would therefore have hardly more of a basis for reckoning the probable price of any single commodity than they would have in the absence of a Commodity Reserve System in operation; and price relationships between commodities would not be appreciably more subject to advance calculation. Under such circumstances, decisions to expand output in particular directions, as producers inevitably must decide, would be scarcely easier to make than in the absence of a Commodity Reserve System. Since a virtue thus seems to be made of the uncertainty of individual commodity prices, there would appear to be a conflict with the aim of promoting output expansion, particularly for agricultural products.

A greater measure of general price certainty would overcome some of the obstacles to greater use of capital in relation to labor in farm production, but little aid in making decisions relating to resource allocation among alternative enterprises would seem to derive from the plan. In the international sphere, dollar-short importing nations depending on imports for their supplies of particular products would have little added certainty as to their future needs for dollar reserves, nor as to their expected balance of payments position. Nations depending on exports of one or two commodities for a large part of their income would receive little additional income assurance.
There would be many technical difficulties in operating such a composite-commodity plan. Each commodity often consists of very numerous types and grades requiring a schedule of price differentials. An international plan would involve decisions as to types and location of storage acceptable at time of offer by sellers. But these Bennett classifies as "minor problems of operation" and feels their solution is well within the scope of human ingenuity.
League of Nations-Riefler Proposals

The League of Nations Delegation on Economic Depressions in its 1945 report suggested "the constitution and financing of an international buffer stock agency with the function of purchasing crude products when their prices tend to fall and selling them when their prices tend to rise." The buffer stock agency would be formed by governments of producer and consumer countries. Financing would be by government contributions, supplemented by funds borrowed on financial markets. Operations would be in terms of individual commodities rather than composite units. Buying would take place when the price of the commodity fell a given percentage, say 20 percent, below the average price for the previous eight to ten years. Selling would occur when the price rose 20 percent above the average. The figure of 20 percent was only illustrative and in practice would have to be varied for each commodity according to the elasticities of demand and supply. It was felt unlikely also that a maxima and minima figure could be fixed for all time, variations being permitted when excessive accumulations or depletions of stocks occurred. Initially operations would be conducted in the more important commodities, expanding with experience to cover a wider range of goods.

The Chairman of the Delegation later elaborated on the proposal in a published article. In his opinion, the greatest obstacle to

successful buffer stock operation is the political effectiveness of pressures from producers for untenably high prices. He proposes the same method of financing as did the Delegation, but emphasizes that the agency "would be directed to make its operations self-supporting." In doing so the agency would be discouraged from seeking to stabilize the price of any commodity as too high a level or at any single level. Buying would have to be done at prices sufficiently below expected long-term values to permit the costs to be recovered from later sales at higher prices. With this safeguard plus representation of both producer and consumer interests, he feels the pressure toward higher prices could be resisted.
Grondona's plan contemplated a buffer stock, not by a group of nations, but by a British corporation only. The corporation would deal in some heavily imported commodities on an individual basis. A base price would be determined for each commodity every year and during that year the corporation would stand ready to buy each commodity in unlimited quantity at 90 percent of the base price and sell at 110 percent of base price. The financing would be wholly British and the objective price smoothing rather than contracyclical.

The measure of success that a single nation could expect in conducting buffer stock operations on an international market would not seem to be great except in commodities of which that nation was by far the major importer. Otherwise, despite the fact that prices could be changed annually, there would seem to be great danger that during the year great stocks at high cost could accumulate or else the corporation could be forced out of business by stock depletion in the event that circumstances caused market prices to deviate significantly from the base price.
Plan of Andre Istel

The plan proposed by the French banker, Andre Istel involved the formation by each country of a National Corporation whose purposes would be: (1) to constitute a reserve of raw materials for war or peace and (2) contribute to the stability of raw material prices.

Purchases of raw materials which the particular country imports would be made by the Corporation when the price of the commodity declines more than the general price level. Conversely, sales would be made from accumulated stocks when the price of the imported raw material rose more than the general price index.

The National Corporation of each country should remain in constant touch with the Corporations of other countries and also with the cartels of producers of those raw materials in which it is interested. It was suggested that activities could be much more efficiently integrated if the authorities in charge of a nation's reserves of gold and foreign exchange were also put in charge of the National Corporation controlling the reserves of imported raw materials. They would thus be in a better position to decide the proper allotments between reserves in gold, foreign exchange and imported raw materials. Together these might be termed the national reserve of foreign purchasing power. Internationally, some form of clearing corporation might be useful, particularly to permit earmarking of raw materials by one corporation for another to save shipping expenses and risk.

Istel also suggests that the National Corporation could be used to acquire, store and distribute domestically the imported raw materials of a nation in addition to obtaining the required external credits.

An attempt would be made to give the effect of buying goods in one's own colonies with one's own currency. The Exchange Stabilization Fund in each country would undertake to accept the other country's currency, at least in partial payment. The purchasing country would be required to guarantee to make up any depreciation of its currency, and would deposit as collateral a certain percentage of gold or other approved security of an amount offering a reasonable margin of safety. The approved security might consist of the currency of another country, e.g., United States dollars, or it might include raw materials deposited with the National Corporation of the creditor country or with that of an agreed third country. Istel felt that the plan could be extremely flexible, especially if some kind of clearing organization could be devised for these National Corporations.

It would appear this plan would deal in single commodities rather than composite units and like that of Grondona, the buffer stocks would be operated by importing countries. However, the fact that the buying and selling points would be determined by a relationship to the general price level presents many problems and in addition offers little in the way of contracyclical effectiveness. It is unlikely that the fluctuations in the general price level of any two countries
will be exactly the same magnitude nor would the prices of a particular commodity necessarily by the same in two importing countries. As long as buying and selling operations would be automatic, and with no restrictions on the international flow of goods it does not seem improbable that when differences in price arise between two importing nations, the operations of their Corporations would be in competition with each other.
The plan advocated by Scanlan is of the buffer stock type. Operations would be in terms of individual commodities. The scheme would consist of a coordinated series of national and international reserves of the major basic commodities, the reserves to be of a size sufficient to meet all possible demands and all contingencies of disaster—perhaps as much as a five-year supply of each. Purchases and sales would be made whenever prices went below or above a stabilized, bulk-line, "mint" price, this price being subject to change only after long advance notice, as a result of secular trend, technological progress, competition from substitutes, etc. Such a price would be similar to the mint price of gold under the full gold standard or to prices charged by regulated public utilities.

A National Economic Reserve would be established for goods produced wholly for domestic needs. An International Economic Reserve System would be organized and operated, in cooperation with other nations, to accumulate and maintain reserves of the major basic commodities in world trade. No conflict was contemplated between the domestic and international reserve systems since they were expected to cover different commodities with no overlapping.

The International Reserves would be financed by contributions from the participants in proportion to their share in world production of each covered commodity. Those producing countries who would find difficulty in contributing because of immature financial economies could be assisted by financially mature countries, such as the United States, with low interest loans secured by the borrowers' shares in the International Economic Reserves. It was admitted that the cost of carrying such huge investment in commodities would be high, but Scanlan states that there is high cost also in the huge stocks of gold held as backing for monetary purposes and in the large reserves of idle credit in the Federal Reserve System.

Provision would be made for consumer countries to have equal representation on each commodity committee and as a further check, price determinations should be reviewed by the International Economic Reserve Board as a whole. Setting and maintaining the "mint" price, including the determining of regional and other differentials would probably be the greatest problem. It is at this point that the influence of pressure groups would be greatest. Scanlan suggests that a "bulk-line price" - that price which calls forth the bulk of the supply - would be the best guide. Such a price, changed only at long intervals, could "bulwark, rather than undermine, the basic allocation and rationing function of the price system is an essentially private enterprise economy."

81/ Scanlan, R. J., Free World, September 1943, p. 213.
Of the scheme as a whole Scanlan stated that it "gives the security of sizable reserves, stabilizes prices for major basic commodities and harmonizes and balances our entire relatively free economy by offering a constant market for the purchase or sale of major basic commodities at fair "mint" prices."\(^{83/}\) Since the plan is of the single commodity buffer stock type it is still subject to the many disadvantages and problems mentioned under buffer stocks, and like many of the other plans, the operational details do not seem to have been worked out. The main departure from similar schemes is in the bulk-line "mint" price (for which the determining principles have not yet been decided upon) and the very large size of the reserve stocks that would be held.

\(^{83/}\) Scanlan, R. J., Free World, September 1943, p. 212.
International Employment and Stabilization Fund

In 1947, Professor Jacob Viner proposed the formation of an International Employment Stabilization Fund as a means of stabilizing economic activity on an international scale. He would retain the International Monetary Fund and the International Bank for Reconstruction and Development, but in addition proposed a fund with resources three or four times as great, designed specifically to mitigate cycles of mass unemployment. Such a fund would be obliged to lend freely in critical times, however, poor credit risks might be, and press hard for repayment when employment conditions were buoyant. As an adjunct to the lending operations it was stated that "any programs of accumulation of stocks of basic commodities for commodity stabilization and for the maintenance of 'ever-normal granaries' could readily be fitted into the operations of this agency.

Thus, the fund would be given the authority actually to buy basic commodities. Presumably such buying operations could be undertaken more promptly than investment activity could be launched, but international loans are given a much more elevated position than commodity

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85/Ibid., p. 106.
86/Ibid., p. 107.
87/Johnson, D. C., Trade and Agriculture, p. 151.
stockpiling as an effective contracyclical technique. Financing would probably be by capital subscription and it can be inferred that buffer-stock operations would be conducted in separate commodities rather than commodity units. It would also appear that operations would not be automatic, but rather would be very discretionary in terms of the commodities included and the prices paid.
The Proposals for a World Food Board were presented to the second session of the Conference of the Food and Agriculture Organization of the United Nations at Copenhagen in September, 1946. The general objective of the Food Board would be "to ensure that sufficient food is produced and distributed to bring the consumption of all peoples up to a health standard." The Board would further be empowered to stabilize prices of agricultural commodities on the world markets by holding stocks of each of the most important commodities. After announcing maximum and minimum prices it would undertake to buy for its stock when the world price fell below the declared minimum and sell from its stock when the world price exceeded the maximum. To improve distribution and consumption of food it was suggested that a "fund be provided to finance arrangements for countries of great nutritional need to purchase agricultural surpluses of other nations on special terms. Such surpluses might otherwise paralyze any price stabilization operations and bring ruin to the farmers of many lands." Thus, the World Food Board was to involve both a scheme for stabilizing prices by buffer stock action as did most of the other schemes described and a system of disposing of possible excessive surpluses (that might interfere with price maintenance) into consumption at substandard prices, the losses to be borne by the contributors to the fund.

88/ Food and Agriculture Organization Proposals, p. 12.
89/ Food and Agriculture Organization Proposals, p. 8.
A Preparatory Commission was set up to study the objectives of the proposals and prepare concrete recommendations for international action. The Commission approved of the ideas of international buffer stocks on an individual commodity basis and of disposing of surpluses into consumption at substandard prices. But it rejected the idea of a World Food Board that would hold stocks and be financed internationally. Instead it was suggested that stocks would be financed by the individual participating nations under agreement as to quantities to be held by each and manner of disposal. It was suggested that supervisory or coordinating powers be assigned to the International Trade Organization or in the interim to a temporary Coordinating Committee of three highly qualified persons, one of whom should be nominated by the Food and Agriculture Organization. 90/

The aim of the stabilization aspects would be "too smooth out cyclical and seasonal or periodic price fluctuations, not to withstand movements of a secular character due to a persistence of excess or deficient production." 91/ Thus, the contracyclical function is included but not emphasized. On the whole, the plan was fairly generalized and not too well developed as an operational device.

91/ Ibid., p. 24.
International Commodity Clearing House

In September 1949, the Director General of the Food and Agriculture Organization recommended to the Council and Conference that an International Commodity Clearing House (ICCH) be established as soon as possible. Such an ICCH would "be charged with the broad responsibility of facilitating the clearance of agricultural markets in order to forestall the accumulation of burdensome surpluses." At the same time it was hoped that it would permit producing countries to maintain output and render unnecessary such measures as crop destruction.

The plan would be designed especially to facilitate the purchase of raw commodities by countries short on foreign exchange. Importing countries would be able to buy goods at full price in their own currency or at reduced prices if they had the currency of the supplying country. In addition, the ICCH would be empowered, though not compelled to engage in buffer stock activities by buying storable commodities when the price in any period fell substantially and to sell on rising prices.

The ICCH would be a public corporation with a capital equivalent of five billion dollars subscribed by member nations in their own currencies. Only 20 percent of the authorized capital would be initially called up, the remainder to be called if needed. These contributions

93/ Ibid., p. 17.
94/ Ibid., p. 21.
would be earmarked for use in the contributing country to facilitate purchases by exchange-short countries of surplus commodities at cut prices.

The ICCH would tend to become an international bank, exchanging inconvertible currencies against one another. In proposing the plan, however, few of the operational problems were really considered. In the period of dollar shortages, difficulties would arise in relation to a country like Britain that would be mainly a purchaser of agricultural products. Under such circumstances, the ICCH might become the holder of an embarrassing amount of sterling, and the accumulation of new debts in soft currencies would add to the difficulty of eventual re-establishment of convertibility. The solution to such a problem might be to include manufactured goods in the plan so that "surplus" agricultural commodities could be exchanged against "surplus" manufactures. But this would add to the barter type of arrangements which were considered by many of the opponents of the plan, such as the United States Treasury, as a type of exchange it is desirable to get away from, and efforts towards which in practice have come to nothing.

Then, too, the problem of what constitutes a "surplus" would have to be met - goods might be in surplus only because the price is

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95/ The Economist, October 1, 1949, p. 741.
96/ The Economist, November 26, 1949, p. 1181.
artificially high. What would be the price setting standard and what constitutes the "full price" at which importing countries can buy in their own currency? Since the plan decries output restriction or destruction, would prices attempt to cover cost of production of all the commodity produced? The major emphasis in the plan was placed upon making food available to needy countries at low prices with the result that these and other problems more closely related to the price stabilization objective were not fully considered.
Emergency Food Reserve

At the 15th session of the Food and Agriculture Organization meeting in Rome on June 9-15, 1952, a proposal for an Emergency Food Reserve was presented. In order to meet famine wherever it might occur, due to natural causes rather than wars, stocks would be stored and administered on an international basis. The plan would be carried out by means of three related efforts:

1. An internationally owned store of food.
2. An internationally owned emergency fund with which to buy food when needed.
3. Nationally owned stocks contributed by governments which would pledge themselves to deliver such food upon call.

As a basis for carrying out the plan, a standard unit called an "Emergency Food Reserve Unit" (EFRU) was proposed. One EFRU would consist of the food required to supplement the diet of one million people by 1,200 calories a day for one month. The suggested composition of the unit was 7,000 tons of cereals, 1,500 tons of pulse and 500 tons each of skimmed milk, hydrogenated oil and sugar, a total of 10,000 tons of concentrated calorie and good protein sources. At prevailing prices it was estimated that one EFRU would cost about $1,650,000 with annual insurance and storage charges estimated at $50,000.

97/ Northwestern Miller, June 24, 1952.
While employing somewhat of a commodity unit principle, this plan is primarily one of overcoming critical food shortages rather than disposing of surpluses or stabilizing prices of agricultural products. However, if storage operations were entered into at opportune times and stocks disposed of only to alleviate famines, some price stabilization or support could result. Essentially though, its major aims appear to be more directly sociological than economic.
Surplus Disposal Agreements

A further type of agreement is one which J. S. Davis terms surplus disposal agreements.98/ "The central objective would be to achieve unified liquidation of the surplus at appropriate prices, in such ways as to promote consumption without unsettling the process of trade." 99/ The most significant attempt with this type of agreement has been made with wool.

At the end of World War II the United Kingdom found itself the holder of ten million bales of Dominion grown wool. The governments of the United Kingdom, Australia, New Zealand and the Union of South Africa decided to transfer the accumulated stocks to joint ownership under a new corporation known as the Joint Organization and incorporated as the United Kingdom-Dominion Wool Disposals, Ltd. In September 1946 wool auctions were reopened in the United Kingdom and the Dominions and the Joint Organization offered wool at the auctions alongside offerings of private owners of current clips. Since the initial stocks were equivalent to two full years' clips from the three Dominions, there was danger of depression the market for the new clips, so the Joint Organization was authorized to bid at the auctions in order to support the market during the period of

99/ Ibid., p. 44.
the disposal of the stocks. Purchases were made if the market price fell below reserve prices agreed on each year by the Governments acting together on the advice of the Joint Organization.\footnote{United Nations, Review of International Commodity Problems, 1948, p. 10.} The reserve prices were fixed substantially below the current market prices, making it unnecessary to enter the market on the buying side very often. Any profit or loss arising from transactions of the Joint Organization was to be shared equally by the Government of the Commonwealth country in which the wool originated and the United Kingdom Government. Originally it was expected that stock disposal operations would take at least 15 years, but by the end of five years, operations had been almost completed.

This international arrangement had several distinctive features. Its membership was confined to British Commonwealth countries, but it did provide for consultative representation of non-member wool importing countries and the International Wool Textile Organization.\footnote{Davis, J.S., op. cit., p. 45.} Operations were conducted by a corporation rather than a governmental or inter-governmental agency which gave it a greater degree of freedom from political influence. And while the main aim was surplus disposal, provision was included for price stabilization operations through a form of buffer stock action, giving the plan a degree of similarity to some of the Food and Agriculture Organization proposals.
Commodity Control Agreements

Beginning about 1931 a series of international agreements were inaugurated which set a pattern typical of most of the pre-World War II agreements. The members consisted mainly of the principal exporting countries and the agreements were characterized by the large number of control features included. In attempts to raise the price of the commodity from depressed to remunerative levels, exports, acreage, and/or production were restricted and accumulation and disposition of stocks was regulated. They tended to freeze production in historical patterns and usually favored high cost producers often at the expense of those with lower costs. The general tendency was to restrict rather than expand trade and production.

These agreements achieved varying degrees of success for the participating countries, but not always with beneficial effects on the world economy. Some are still in effect and there have been advocates of further agreements in the postwar period. Most of the agreements contemplated envisage a somewhat less restrictive pattern than those of the interwar years, and proposals that could be used to ensure this were included in the charter of the proposed International Trade Organization. Short descriptions of most of the interwar agreements, most of which followed the commodity control pattern, are presented in the next chapter.
Other Types of Agreements

In addition to the types of commodity arrangements outlined above there are a few other types which are adapted to more specialized problems.

Agreements relating to the conservation of resources have been tried, mainly in regard to marine resources. Agreements concerned with fur seals and halibut in the North Pacific have, by appropriate measures determined upon after competent scientific investigation, prevented destructive exploitation, replenished seriously depleted stocks, facilitated reductions in costs and expansion of output, and related sources of international friction have been largely eliminated.\textsuperscript{102/}

A few agreements have had the primary functions of consultation, investigation and recommendation. Such investigatory and consultative agreements would seem to merit greater consideration in relation to international commodity problems. In the postwar period a few Study Groups have been set up for particular commodities, but usually with the set purpose in mind of instituting a commodity control agreement instead of providing for continuing investigation and consultation by a group that would include at least some impartial observers.

\textsuperscript{102/} Davis, J. S., op. cit., p. 43.
Prior to and since World War II, several nations stockpiled commodities for "security reserves" without particular reference to price stabilization. Keynes advocated the idea in 1938, but he thought it would also help to mitigate economic fluctuations. Benjamin Graham included security stocks in his Commodity Reserve Proposal, but Bennett and Associates in drawing up their modified plan, definitely feel the merging of buffer stocks and security stocks to be "altogether irrational." In the postwar period the United States has been doing large amounts of stockpiling, often with considerable price effects. Such security stocks are usually national rather than international in concept, though supplies may be obtained internationally. And though such stockpiling activity can affect prices, operations could be in or out of harmony with a buffer stock scheme or other stabilization measures.

CHAPTER VII

COMMODOITY AGREEMENTS IN THE INTERWAR AND EARLY POSTWAR PERIOD

Specific Commodities

The two previous sections of this chapter have outlined the evolution of both proposed policy and specific programs suggested to improve international commodity marketing. Early thinking on the subject recognized the disadvantages inherent in the uncoordinated, restrictive, cartel type of arrangements, while later thought in both proposed policy and programs suggested multilateral, non-restricted agreements, often highly coordinated under an international agency, but to be instituted only under specified economic conditions. It is significant too, that, despite the varying degrees of success of past agreements, those persons at the policy level continue to look on commodity agreements as a valuable economic institution.

It would be well at this point then to look behind this evolutionary thought trend of the past 25 years to the market conditions as they existed for specific commodities and to look briefly at some of the agreements which were instituted prior to the post World War II period. 104/

Coffee

Though more than fifty countries produce coffee, Brazil and Colombia account for about 70 percent of all production. The demand for coffee is relatively inelastic, so even though the price of a bumper crop was low, not much more than usual was consumed. Since it is fairly durable, storage is feasible for several years.

In Brazil, immediately after World War I, merchants were doing the storing and gaining the benefits in poor crop years. This led the planters and the government to experiment in valorization schemes, beginning in 1923. The 1927 crop was a large one and the prosperity of the planters under the control scheme encouraged great expansion in planting. Though the new plantings had not come into production, there was another bumper crop in 1929 and considerable carryover from 1927 was still on hand. The financial crash in the fall of 1929 resulted in the price of coffee falling to less than the advance that had been made to the planters. With no further funds available for financing, the scheme ceased to function.

The trees that were planted after 1927 came into production after 1932. Crops were large and stocks accumulated rapidly. Enforced crop restriction except for prohibition of new plantings, was not practical. The only way of preventing economic collapse was to destroy the coffee. By March, 1942, 75 million bags (132 pounds each) of coffee had been destroyed.\footnote{Black and Tsou, op. cit., p. 527.}
On April 16, 1941, the Inter-American Coffee Agreement came into being, effective from October 1, 1940. It was established by a treaty among the governments of Brazil, Columbia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Peru, Haiti, Ecuador, Dominican Republic, Nicaragua, Venezuela, and the United States. Thus, the United States was the only entirely consuming country. The Agreement established an import quota for the United States, and specified how much of this could come from non-signatory countries. The Agreement covered 85 percent of all world coffee exports, the only free coffee left being that which moved between Eastern Hemisphere countries. The maintenance of prices was governed by the Inter-American Financial and Economic Advisory Committee and the Agreement itself was administered by the Pan American Coffee Bureau in Washington.\(^{106}\) It was the opinion of the governments entering the Agreement, that there existed at the time a burdensome surplus of coffee due to wartime disruption of European markets and that this surplus would require intergovernmental control to prevent hardship.

The total basic annual export quotas amounted to 27,157,000 bags of 60 kilograms (132 pounds) each. The United States had an import quota of 15,545,000 bags, with provision made for adjustment. Of the total of 56 votes exercised by the delegates of the participating governments, the United States had 12, Brazil, 9; Columbia, 3; and each of the remaining countries, 1. After 1943 the Agreement was

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\(^{106}\) Hexner, op. cit., p. 106.
continued from year to year by unanimous consent of the participating governments and it expired on September 30, 1947.

While most of the other agreements have been producer controlled, the Coffee Agreement placed the United States, the only importing country, in a very significant position. The political interest of the United States in the Western Hemisphere created a desire to promote the economic well-being of Latin America. In her position as a monopsonistic buyer she could have followed a shortsighted policy from the standpoint of the exporting countries by setting the contract price too high. On the other hand, in the light of her own agricultural price support program, she faced the problem, as Black points out, of whether she could impose a lower price level on foreign producers than she was willing to impose on her own farmers. Since the war, world consumption of coffee has been higher than production and there has been a rapid rise in prices. Imports by the United States now constitute about two-thirds of world coffee trade compared to about one-half in the 1935-1939 period.

**Beef**

Prior to World War II most of the international trade in meat consisted of exports from Argentina, Australia, Denmark, and New Zealand to the United Kingdom. But the severe slump in meat prices in the early thirties threatened the livestock industry of the United Kingdom and caused her to seek import control. The Ottawa Agreement of 1932 and the Anglo-Argentine Trade Agreement of 1936 provided for quantitative regulation of imports of beef, mutton, bacon and hams.
into the United Kingdom.

In January 1937, the International Beef Conference was set up under the terms of an informal understanding. It was the aim "to regulate the supply of beef to the United Kingdom in such a way as to ensure, in the interest of consumers and producers alike, an orderly adjustment of supply to demand, having due regard, among other things, to the seasonality of supplies of beef from all sources, including the United Kingdom home production and the potentialities of production of the several producing countries." 107/ This Conference was formally established later by a written agreement between the governments of Australia, New Zealand, Eire, Argentina, Brazil, Uruguay and the United Kingdom. The United Kingdom government was to represent the interests of smaller supplying countries.

The procedure was to divide up the United Kingdom imports between the member countries with a view to obtaining a goal price. The United Kingdom had the authority to set quotas if the decisions in regard to them were not unanimous. The actual average price for the first three years of the agreement was a quarter cent under the goal. 108/ The home producers were kept satisfied by direct government subsidies.

Further consideration was also given to the international meat situation when, in 1937, the Empire Beef Council was established in

108/ Black and Tsou, op. cit., p. 528.
London to consider the Empire aspects of the market. In December, 1938, this Empire Conference was empowered to consider problems of lamb and mutton imports and its name was changed to the Empire Meat Council. The international meat market had been studied earlier by the Economic Committee of the League of Nations, at which time the Committee thought an international agreement would be the best solution to meat export problems.

The International Beef Agreement was similar to the Coffee Agreement in that the importing country occupied a key role in the scheme. The consumer received some protection through the responsibility of the British government to the electorate, and the fact that the supplying countries were interested in maintaining a large volume of exports.

After the outbreak of World War II the United Kingdom Ministry of Food took over meat purchases and the Conference ceased operations. Purchases were made from the chief exporting countries on the basis of bilateral long-term contracts.

Rubber

All of the main rubber producing areas today have come into existence since 1900. Prior to that time most rubber came from the Amazon Valley and Central Africa where the trees grew wild. Today production is concentrated in the Far East - the Netherlands Indies, Ceylon, India and Malaya and most of the investment is owned by Europeans.
High prices resulting from the increasing demand for rubber by the automobile industry prior to World War I led to rapid planting of estates, which came into production immediately after the war. Coincident with this increased production was a post-war slump in United States consumption, causing prices to fall rapidly. The yearly average price of crude rubber in ribbed smoked sheets in New York in 1917 was 72 cents a pound and by 1921 only 16 cents a pound.109

A private attempt at restriction was tried unsuccessfully by the Rubber Growers Association in 1921. Beginning November 1, 1922, the British government established the Stevenson Plan for Ceylon and Malaya which covered about 70 percent of world production. It operated through restriction of exports by imposing export duties on each estate that became prohibitive as soon as exports exceeded the amount permitted in the estate's quota. The price goal was 30 cents a pound, but by 1925 prices had risen to 73 cents, and complaints in regard to monopoly control began to be registered by the United States. The high prices encouraged increased production outside the scheme, causing prices to fall again. The plan was abandoned in 1928, having failed completely to stabilize prices.

From 1951-1933 prices fluctuated around four to six cents a pound. By 1934 agreement was reached between the governments of the United Kingdom, France, the Netherlands, India and Siam covering almost all of the world production. The agreement was administered by

an International Rubber Regulation Committee representative of producers only and consisting of representatives appointed by the governments, with voting power according to production quotas assigned to the different countries. Provision was made for an advisory panel of three, later four, members representing consumers of the United States, Great Britain and Germany.

Control was based on export and output restrictions, but did not set a specific price goal. The quotas increased each year as recent plantings became productive, but any new plantings became prohibited. If quotas were exceeded, heavy export duties were met with. The percentage of quotas that could be exported was fixed from time to time according to the size of world stocks and to maintain a "fair and equitable price level, reasonably remunerative to effective producers." Some attempt was thus made to determine costs of production.

The agreement was revised and reviewed in 1928, continued in 1943 by the United Kingdom, India and the Netherlands, and came to an end in 1944.

The International Rubber Regulation Agreement was more flexible than the Stevenson scheme and managed to achieve a considerable measure of price stability. While most of the plantation production was brought under control, native production still had to be contended with; and when the price was high, even an exhorbitant export tax on the production of the natives did not meet with much success. The influence of the consumer representatives is not known but there
is some doubt as to how effectively they served consumers particularly since the German representative was supposed to represent all European consumers, even in the light of the political situation of 1938 and 1939.

Beginning in 1939 the United States and British governments started stockpiling and the International Rubber Regulation Committee was influenced to make greater supplies available to the United States. By the end of 1941 there was, in effect, no longer any restriction, and it seemed unlikely that the agreement would be renewed in its previous form, i.e. in terms of regulation of plantings, production and exports. The great inroads made by synthetic rubber during the war added further to the problems of the rubber producers.

Sugar

Prior to World War II about two-thirds of world sugar production came from cane and about one-third from beets. In the Western Hemisphere, Cuba was the largest exporter, while in the Eastern Hemisphere, Java was the big exporter.

The first International Sugar Agreement was signed in Brussels in 1902 between the governments of 13 countries. Seven of the countries – Austria, Belgium, France, Germany, United Kingdom, Hungary, and Italy – established the International Sugar Union. The Netherlands, Luxembourg and Peru joined in 1903, Switzerland and Sweden in 1906 and Russia in 1907. The United Kingdom and Italy left the Union in 1912, the remainder continuing until World War I. The Agreement provided that signatory countries should suppress all bounties on the
production and export of sugar. It included exporting and importing countries and was regarded as comparatively successful.

During World War I the increased demand for sugar and the fall in European production caused a great increase in Cuban production. The wartime price rise continued to a peak of 10 pence a pound of raw sugar in May 1920; but by December 1920 it was two pence a pound, and in December 1921, one pence a pound. From 1923 on, European sugar production recovered rapidly under the stimulus of high tariffs. Total world production became seriously in excess of effective requirements and stocks accumulated and prices fell. Cuba attempted unilateral restriction of planting, and attempts were made to establish agreements among sugar exporters. "It was a matter of Cuba against a world determined to be self-sufficient." In 1929 there were record crops everywhere and by mid-1930 the price of raw sugar in London fell to one-half pence a pound.

The low price and diminishing consumption everywhere made combined action seem desirable. In May, 1931 the private sugar industries, with government approval, in Belgium, Cuba, Czechoslovakia, Germany, Hungary, Java, Peru, Poland, and Yugoslavia, signed the Chadbourne Agreement. It provided for gradual stock disposal over a five-year period, established export restrictions, and current production was confined to domestic requirements plus export quotas. An International Sugar Council was set up at The Hague to supervise the

110/ Rowe, op. cit., p. 88.
operation of the Agreement, to study measures for the increase of sugar consumption and to encourage adherence to the Agreement of the sugar industries in other countries.

Export prices and consumption continued to decline over the period of the Agreement. Some reduction of stocks was accomplished, but this was more than offset by increased production in the importing countries. While the Chadbourne countries' production was decreased by seven million tons, that of the rest of the world increased by four and one-half million tons. The Agreement was not renewed when it expired in 1935. Economic nationalism became so strong that British consumers were paying nearly three times as much for home-grown sugar as they could import it for. South Africa was at one time exporting 40 percent of its sugar at eight shillings per hundredweight and charging its consumers 30 shillings per hundredweight for the remainder.

A committee of the World Monetary and Economic Conference of 1933 discussed sugar problems and recommended that the League of Nations invite the countries concerned to confer on an agreement. It was not until April 1937 that an international sugar convention was convened which resulted in an agreement being signed in May, 1937 by the governments of South Africa, Australia, Brazil, Belgium, United Kingdom, Chile, Cuba, Czechoslovakia, Dominican Republic, France, Germany, Haiti, Hungary, India, the Netherlands, Peru, Peru, and others. 

111/ Ibid., p. 34.
112/ Ibid., p. 37.
Poland, Portugal, Soviet Union, United States, Yugoslavia. Canada promised to restrict new production but did not sign the agreement. The aim was to make the agreement equitable to both producers and consumers and expand the free market. Export quotas were fixed for each of the member countries exporting to the free market with provisions for raising or lowering the quotas if necessary. Exporting countries were also to adhere to minimum and maximum stock provisions in order to ensure orderly marketing, and to encourage consumption, check the use of substitutes and to explore new uses. The United States and the United Kingdom accepted particular obligations in regard to imports from and production in their territories and possessions.

The agreement is administered by an International Sugar Council. In the allocation of votes among the different countries, the importance of each country as a producer, importer and exporter of sugar was considered. Exporting countries have 55 percent of the votes and importing countries have 45 percent. The agreement was extended by a series of protocols beyond its original five years, though the quotas were inoperative due to wartime conditions and have continued inoperative since the war.

The success of the agreement is difficult to determine due to the fact that economic conditions since its inception have been those of preparation for war and actual war. The difficulty of economic nationalism continuing to foster higher cost beet sugar production in competition with low cost cane sugar areas still exists. On the
whole, it appears that the signatory countries sincerely cooperated in regard to their quotas, and conditions in the industry were better than they would have been without the agreement.

Tea

The United Kingdom plays a leading role in the world trade in tea not only as the largest consumer, but also due to the fact that it re-exports more tea than most countries import. A few powerful combinations control most of the tea buying on the London market.

Immediately after World War I, mounting stocks and falling prices gave encouragement to several voluntary restriction schemes which were unsuccessful. During the later 1920's, prices picked up, leading to new planting on a considerable scale. The result was an oversupply at the same time as the world depression struck. Early in 1930 the trade associations of India, Ceylon and the Netherlands East Indies formed an agreement to voluntarily reduce output, but this lasted only one year.

The first International Tea Agreement was signed in February 1933 for five years by representatives of the industry in India, Ceylon and the Netherlands East Indies and represented about 85 percent of the world tea exports. It was an agreement among producers but the respective governments enacted the necessary legislation for its administration. There was no direct control of prices, but export quotas were established and new plantings prohibited. The Agreement was revised and extended in November 1936 as of April 1, 1938, for five more years. In 1943 the Agreement was extended to the end of
hostilities and two full quota years afterwards. In 1934 the British
East African producing regions and Malaya joined the scheme insofar
as new plantings were concerned. China, though an important exporter,
remained outside the scheme as did Japan, Formosa and French Indo-
China. Under the second agreement each country was to have five re-
presentatives on the committee, all appointed by the government, four
after consultation with the growers. Governments had to approve any
changes in the scheme. Thus, though the scheme was officially a
private marketing control, it actually was a blend of government and
private control. Members determined by voting the actual percentage
of the standard quota to be shipped. The standard quotas were the
largest exports of one of the three years, 1929, 1930, 1931. Pro-
vision was made for the International Tea Committee to collect st-
atistics on production, exports, consumption and stocks in all
countries.

Some attempt was made to increase the consumption of tea through
the issuance of propaganda by the International Tea Market Expansion
Board in London.

Following the outbreak of World War II the British Ministry of
Food took over the whole tea supply and fixed prices according to the
average price prevailing at the end of 1938. Control by the Inter-
national Tea Committee continued technically, but restrictions were
inoperative in the face of world shortages, and export quotas were
increased to 125 percent of standard quotas.
The International Tea Committee had considered the possibility of a buffer stock and consumer representation on the Committee, but no action was taken. It was felt that some security was given consumers by government support of the agreements.

Tin

Tin is produced mainly in the southeast corner of Asia where it is dredged from river deposits. Bolivian production is more costly as it is mined from underground seams rather than river deposits. There is also some production in Nigeria and Portugal. British interests have a virtual monopoly in the smelting of the tin.

The demand for tin was relatively inelastic and small increases in production resulted in severe falls in price. A fall in price was not usually checked by buying for stocks until the price fell very low, since a high value made holding of stocks very costly. Likewise, a slight shortage resulted in a sharp rise in price.

During World War I, prices rose and large stocks accumulated in the Far East due to shipping difficulties. With the post-war slump of 1920, prices fell greatly. In 1921 the British and Dutch governments formed the "Bandoeng Pool" to buy up surplus stocks and withhold them for the market. During 1924 and 1925 consumption picked up and ran ahead of production. This enabled the stocks in the Pool to be liquidated. Prices continued to rise through 1926, finally encouraging greatly increased capacity and a rapid rise in production by 1929.
In July, 1929 the Tin Producers Association was formed, primarily among British, Netherlands and Bolivian producer interests. It tried curtailing mining operations and fostered other voluntary restrictions, all of which proved ineffective.

In February, 1931, governments were induced to enter the restriction picture. Signatories to the basic agreement were the governments of the Netherlands, Nigeria, Malay States and Bolivia. Siam entered in September 1931 and the agreement then covered 93 percent of all tin production. It was administered by an International Tin Committee and each participant was allotted a standard tonnage based on his 1929 output. Production quotas were determined periodically as a percentage of the standard quota. By July 1932, production had been restricted to one-third of 1929 production. The London Monetary and Economic Conference meeting in 1933 gave its approval of the agreement. The gradual rise in prices caused countries outside the agreement to start increasing production, but in 1934 French Indo-China, Belgian Congo, Portugal and Great Britain (Cornwall) came under the scheme. The latter two dropped out when a new agreement was signed in 1937 to last through 1941. This agreement contained provision for consumer representation. In September 1942 a new agreement was signed in London, effective from January 1942 to December 31, 1946. It provided that two persons should represent consumer interests of the United States (one to be appointed by the government and the

113/ Hexner, op. cit., p. 243.
other by tin consumers), and that a third person should represent other than United States consumers. Provision was made in the agreements for an agency to engage in boosting the sales of tin by propaganda and developing new uses through research. When shortages arose during the war, this agency attempted to conserve uses.

Beginning in July 1934, buffer stocks were periodically a part of international control. This first attempt was terminated in July 1935 when Bolivia decided not to cooperate further. In June 1935, at the instigation of the Tin Producers Association, a buffer scheme was set up with signatories contributing according to their standard tonnages. It operated through a special executive which engaged in purchases and sales in secrecy on the London market. The buffer scheme ended December 31, 1942.

Throughout the period of tin control, private trade associations played a significant role. Hexner claims that government marketing controls could not have operated successfully without the support and guidance of the private entrepreneur. When first instituted in 1931, the scheme more than doubled the price of tin within two years. Throughout the 1930's the price was far above what would have been a reasonably profitable level had the producers been allowed to operate at full capacity. Without the scheme, the price probably would have fallen low enough to have eliminated Bolivian

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114/ Ibid., p. 240.
115/ Rowe, op. cit., p. 157.
producers and possibly Nigerian and to have disorganized the whole industry. At the same time, high cost producers were kept in business at the ultimate expense of consumers. While some provision was made for consumer representation, and the participation of governments was expected to protect public interests, it is difficult to determine what constitutes public interest in a market as wide as the world.

Wheat

Wheat is consumed in every country in the world, while nearly every country outside the tropics produces wheat. In the years immediately preceding World War I, Western Europe was the biggest importer and the biggest exporters were Russia, the United States, Canada and Argentina. Russia was the largest and when, after 1915, Russian exports ceased, a great shortage was created. The effect was to raise prices and increase acreage in the United States, Canada, Australia and Argentina. When, after the war, Europe's production was restored and Russian exports renewed, the result was great overcapacity.

Due to lowering costs through technological progress, wheat production in North America, Argentina, and Australia continued to expand despite falling prices. Production rose in Europe behind high tariff barriers. By 1928 the world's available supplies of wheat were 15-20 percent greater than before the war.\textsuperscript{116} In 1928 good

\textsuperscript{116} Rowe, op. cit., p. 54.
crops all over the world caused prices to fall considerably. The Canadian Wheat Pool, which controlled over 50 percent of the Canadian crop, held wheat and probably kept the price from falling further than it did. By 1930 it was evident the fall in price was not temporary. Stocks began to pile up in the four principal exporting countries - from 270 million bushels in 1923 to 656 million by 1931 - and prices fell below 60 cents a bushel in Liverpool. Consumption failed to increase despite falling prices. The prices to consumers in many Western European countries did not fall due to trade restrictions and subsidized domestic production.

The first International Wheat Conference which was held in Rome under the auspices of the International Institute of Agriculture in the spring of 1931 failed through lack of preparation. A short time later a second conference was held in London, but this too broke down when the United States delegation said it would be unconstitutional for its government to control exports and because the Russian delegation insisted on an export quota equal to its prewar exports of about 165 million bushels per year.

The third International Wheat Conference was held in London in August, 1935 following the World Monetary and Economic Conference. This Conference was successful in producing the first International Wheat Agreement under which the exporting countries were to limit their exports and to reduce wheat acreage by 15 percent. The importing countries agreed not to increase their wheat acreage further and to
reduce tariff restrictions when the Liverpool price rose to 63 gold cents per bushel. The final act was ratified by twenty-one governments, twelve representing wheat importing countries and nine representing wheat exporting countries. The Agreement broke down after the first year when Argentina overshipped her quota by about one million tons and the price, instead of rising, fell to 40 cents per bushel. Thus none of the European countries lowered their trade barriers.

The Wheat Advisory Committee continued in existence after the Agreement was discontinued. Following a large crop in 1938, the Advisory Committee set up a Preparatory Committee of ten countries to draft another international agreement. The war interrupted these efforts, but they were resumed again in the summer of 1941 in Washington when an interim agreement was approved June 27, 1942, between the governments of Argentina, Australia, Great Britain, the United States, and Canada. The immediate objectives of the agreement were limited to establishing a pool of wheat for intergovernmental relief in war-stricken areas and the establishment of a fully representative international wheat conference. There were other provisions, including those relating to export quotas and prices, but they were to come into effect after the war. The agreement anticipated a serious wheat surplus in the post-war period, and it was hoped that a new agreement could later be worked out which would expand consumption by lowering tariff barriers and hence prices in those high tariff countries would reduce output in both the importing and exporting
countries, and would provide prices considered fair to both producers and consumers. An International Wheat Council was established to keep the wheat situation under review.

The fifth International Wheat Conference was held in London during March and April, 1947. Representatives of 41 countries attended the Conference, nine being observers. A draft agreement was presented which provided a minimum price of $1.25 and a maximum price of $1.55, export controls, and mild production controls by signatory importing countries. When it became known that Argentina would not participate, the draft agreement was scrapped and a new multilateral purchase and sales agreement drawn up that omitted production control measures and made the export and import quotas enforceable only at the minimum and maximum prices respectively. These prices were set at $1.40 and $1.80 per bushel for 1947-1948 with a declining scale thereafter; but agreement could not be reached on the prices.

Another conference was held in Washington from January 28 to March 6, 1948. An agreement of five years' duration, to begin August 1, 1948, was signed by Australia, Canada and the United States and 35 importers. It was similar to the 1947 Agreement in its purchase and sales contract form, but provided a maximum price of $2.00 and an annually declining minimum price from $1.50 to $1.10 per bushel. By July 1, 1948, the deadline date, only 12 of the 36 signatory countries had ratified the agreement. When the United States Senate failed to ratify the agreement, the United Kingdom, Australia, Denmark, Ireland and New Zealand withdrew. A Preparatory Committee
was retained "to keep under review the prospects of concluding a new international wheat agreement."

On the whole, the international control schemes for wheat prior to 1949 do not seem to have been too successful. Acreage control was difficult to enforce and did not always mean production control. Under the 1933 Agreement, Argentina deliberately exceeded her quota and only in Australia was the acreage reduction as low as the desired 15 percent.\textsuperscript{117} If this Agreement accomplished anything, it was no more than to slightly ease the pressure of exports during the 1933-1934 crop year. In 1935 surpluses and their effects on producers were very obvious. However, since 1945 the pressure of surpluses has not been so urgent, and the post-war agreements have placed less emphasis on production control and more emphasis on obtaining a greater degree of price and income stability through multilateral purchase and sales contracts.

\textsuperscript{117}\textsuperscript{} Rowe, \textit{op. cit.}, p. 63.
General Considerations

All of the international commodity controls just described relating to the interwar and early postwar period attempted to bring about a more tolerable adjustment of supply to consumption. However, in practically every case the method of adjustment was to restrict supply rather than to expand consumption. Undoubtedly this method appeared to be the most expedient at the time. But the record of achievement of these agreements was not notable and the method used came to be considered highly unsatisfactory.

The needs of World War II resulted in the disbanding of all restrictions to production so that by the end of the war the output capacity for most primary products had reached a higher level than ever before. Fears of recurring surpluses again brought consideration of commodity agreements to the fore. Some of the agreements such as those for tea and sugar still exist, but are inoperative and there has been talk of their revision. Schemes for tin and wool have been discussed. Study groups exist for rubber and cotton and stand prepared to work out a commodity agreement should supply conditions warrant.

The role commodity agreements may play in the future and the chance of their successful operation will depend on certain basic conditions in the economy. There are several assumptions which it seems may be true of the future economy and which provide a useful framework within which to assess such agreements.

First, large scale world depression will be avoided, and for the foreseeable future, there will be an upward movement in production
of all kinds throughout the world, interrupted only by relatively minor setbacks. 118/ The long-term trends of prices is assumed to be more likely upward than downward and disastrous price falls like those of the early 1930's will be avoided.

Second, the United States economy will be more stable than it has been in the past and the movement of prices will probably be upward. In addition, there will be a growing dependence by the United States upon other countries for raw materials. 119/

Third, population growth in the future will likely continue at a higher rate than previously contemplated in the early 1940's. Populations are still uncoiling particularly in areas in the early stages of industrialization. 120/ Even in the United States there is concern over the "fifth plate" that will be at the table in 1976 where currently there are only four. 121/ Not only is population growth increasing in general, but there are indications that supplies for consumption are becoming more unevenly distributed in the postwar world than before the war. There thus becomes not only a need for greater supplies, but also for improved international marketing mechanisms.

121/ See pamphlet by the Ohio Action Committee for Agricultural Research and Education, Your 3 Squares a Day; and the United States Department of Agriculture Bulletin No. 88, Agriculture's Capacity to Produce, Washington, D.C., June 1952.
Fourth, agricultural output is becoming increasingly dependent on the supplies of industry - commercial fertilizers, chemicals for use as fungicides, pesticides and insecticides, tractors and farm machinery, fuel and elasticity. Continuance of world tensions that result in any large scale diversion of factors of production to defense, or international developments that reduce the supply of critical raw materials, will have a significant influence on agricultural production.

Fifth, widely prevalent ideas as to what constitutes a reasonable size of stocks and what is considered a surplus may be in need of review. This was emphasized by the sudden shortage of most primary commodities which occurred in the emergency following June, 1950.

Given these conditions then, commodity agreements must be considered in terms of the part they can play in an expanding world economy and not from the point of view introducing restrictions to remove burdensome surpluses. In this light their main objective would seem to be that of smoothing out the effects of temporary fluctuations in demand and supply.

The most significant of the postwar policy pronouncements setting up a suitable framework for commodity agreements was the proposed Charter for an International Trade Organization. An agreement which followed the old restrictive pattern had been drafted for wheat in 1947 and discarded. In a 1948 draft agreement, the first attempt
was made to depart from the previous pattern, but this agreement was not put into effect. Thus, when the I.W.A. of 1949 became operative it was the first agreement to come into effect since the I.T.O. principles had been formulated. This agreement is thus of interest because it is the only major commodity agreement of recent years for which an operational case study may be made and it represented a distinct departure in terms and spirit from previously attempted agreements. It would thus seem to be of significant interest to analyze the operation of this agreement to determine to what extent it represents a step forward in commodity policy, and to what extent the form of agreement which it exemplifies may be adapted for wider use in the solution of international commodity problems of the future.
PART III

THE INTERNATIONAL WHEAT AGREEMENT OF 1949:

A CASE STUDY

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CHAPTER VIII
POSTWAR DEMAND AND SUPPLY CONDITIONS FOR WHEAT

The world production of wheat shows a high degree of stability from year to year. In the last 25 years, except for the war years, changes above or below the estimated world average have seldom exceeded 10 percent.\textsuperscript{122} This is true because wheat is produced over such a wide area of the world that a crop failure in one section is compensated for by a good crop in another area. Corn shows less stability largely because a relatively high proportion is produced in individual countries or regions.

Although wheat is produced over such a great area, there is still a dependence of large segments of the world population upon surplus production which is concentrated in a few areas. The great uncertainties in the world wheat market arise out of changes in amount and availability of these surpluses which are really marginal quantities relative to total world output, and in effect constitute a difference in yield of only a few bushels per acre from season to season in the harvest of importing countries. In the food crisis years following the war, an extra 360 million bushels of wheat would have completely changed the picture yet this amount represents only about five percent of world bread grain production and only about two percent of total grain harvested.\textsuperscript{123} Though traditional importing

\textsuperscript{122} F.A.O. Grain Bulletin No. 10, p. 27.
\textsuperscript{123} Grain Bulletin No. 10, p. 27.
countries account for about one-half of world wheat production, the
surplus production is largely concentrated in the United States,
Canada, Argentina, Australia, Soviet Union, and the Balkans. These
countries or regions were also the main exporters before World War II,ut as a result of the war the importance of each in the pattern of
trade has changed considerably.

Wartime dislocations seriously disrupted world trade so that by
July 1, 1943, wheat stocks in the four major exporting countries
(United States, Canada, Argentina, and Australia) reached a record of
1,737 million bushels (Table VIII-1), almost four times the 1935-1939
average of 456 million bushels. By July 1945 stocks had fallen to
818 million bushels, and all wheat exporting countries were faced
with providing maximum quantities to deficit areas until European
production could be restored. In 1945 European production was over
600 million bushels below the prewar average (Table VIII-2). Large
requirements were also needed for India and liberated areas in the
Far East. A potential disaster was overcome by exporting countries
making available every bushel of wheat possible and by coordination
of exports, particularly by Canada, the United States and Australia.
In the year ending June 30, 1946, Canada and the United States to­
gether exported the largest amount of any previous period in North
American history. 124/ As a result, stocks in the four major export­
ing countries fell to 387 million bushels by July 1, 1946, the lowest

124/ Menzies, M.W., The Canadian Wheat Board: A Study in the Develop­
ment of Canadian Agricultural Policy, Unpublished M.A. Thesis,
University of Saskatchewan, August 1949.
level since 1938 and about 16 percent below the 1935-1939 average. The crop year 1946-1947 saw only minor improvements in the situation, and the effective demand still far exceeded the supply. Better crops in Europe, Canada and the United States raised wheat production close to prewar levels, but the heavy drain on supplies in 1945-1946 left no sizeable stocks anywhere to cushion the transition between the crop years.

Table VIII-1
Wheat Stocks in Four Principal Exporting Countries
as of July 1, 1954 to 1961
(million bushels)

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Canada</th>
<th>Argentina</th>
<th>Australia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>273</td>
<td>224</td>
<td>145</td>
<td>101</td>
<td>743</td>
</tr>
<tr>
<td>1935</td>
<td>146</td>
<td>230</td>
<td>107</td>
<td>68</td>
<td>551</td>
</tr>
<tr>
<td>1936</td>
<td>141</td>
<td>162</td>
<td>74</td>
<td>53</td>
<td>430</td>
</tr>
<tr>
<td>1937</td>
<td>83</td>
<td>53</td>
<td>61</td>
<td>52</td>
<td>249</td>
</tr>
<tr>
<td>1938</td>
<td>154</td>
<td>38</td>
<td>99</td>
<td>62</td>
<td>355</td>
</tr>
<tr>
<td>1939</td>
<td>251</td>
<td>126</td>
<td>264</td>
<td>65</td>
<td>706</td>
</tr>
<tr>
<td>1940</td>
<td>330</td>
<td>322</td>
<td>102</td>
<td>135</td>
<td>839</td>
</tr>
<tr>
<td>1941</td>
<td>385</td>
<td>417</td>
<td>201</td>
<td>75</td>
<td>1178</td>
</tr>
<tr>
<td>1942</td>
<td>651</td>
<td>449</td>
<td>238</td>
<td>142</td>
<td>1460</td>
</tr>
<tr>
<td>1943</td>
<td>619</td>
<td>630</td>
<td>288</td>
<td>200</td>
<td>1737</td>
</tr>
<tr>
<td>1944</td>
<td>319</td>
<td>398</td>
<td>290</td>
<td>159</td>
<td>1166</td>
</tr>
<tr>
<td>1945</td>
<td>279</td>
<td>314</td>
<td>175</td>
<td>50</td>
<td>818</td>
</tr>
<tr>
<td>1946</td>
<td>100</td>
<td>104</td>
<td>115</td>
<td>63</td>
<td>337</td>
</tr>
<tr>
<td>1947</td>
<td>84</td>
<td>124</td>
<td>125</td>
<td>58</td>
<td>391</td>
</tr>
<tr>
<td>1948</td>
<td>126</td>
<td>105</td>
<td>130</td>
<td>105</td>
<td>536</td>
</tr>
<tr>
<td>1949</td>
<td>307</td>
<td>135</td>
<td>125</td>
<td>95</td>
<td>662</td>
</tr>
<tr>
<td>1950</td>
<td>425</td>
<td>140</td>
<td>100</td>
<td>120</td>
<td>785</td>
</tr>
<tr>
<td>1951*</td>
<td>396</td>
<td>235</td>
<td>85</td>
<td>100</td>
<td>816</td>
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<tr>
<td>1952*</td>
<td>254</td>
<td>270</td>
<td>35</td>
<td>80</td>
<td>639</td>
</tr>
</tbody>
</table>

*Preliminary.

Source: FAO. Grain Bulletin No. 10, January 1949, Table D1; The Wheat Situation, August-September 1952, Table 12, p. 23.
Table VIII-2
Wheat Production in Specified Countries, Year of Harvest, Average, 1934-1938
Annual, 1945-1952

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>1,073,763</td>
<td>697,031</td>
<td>952,668</td>
<td>603,271</td>
<td>948,700</td>
<td>1,021,225</td>
<td>1,133,000</td>
<td>1,150,000</td>
<td>1,235,000</td>
<td></td>
</tr>
<tr>
<td>Other Europe</td>
<td>1,803,739</td>
<td>170,033</td>
<td>270,771</td>
<td>267,447</td>
<td>414,354</td>
<td>430,005</td>
<td>392,000</td>
<td>435,000</td>
<td>415,000</td>
<td></td>
</tr>
<tr>
<td>Total Europe</td>
<td>1,551,502</td>
<td>867,064</td>
<td>1,223,412</td>
<td>870,738</td>
<td>1,363,054</td>
<td>1,451,230</td>
<td>1,525,000</td>
<td>1,585,000</td>
<td>1,650,000</td>
<td></td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>1,196,004</td>
<td>--</td>
<td>--</td>
<td>848,694</td>
<td>1,025,046</td>
<td>1,098,526</td>
<td>1,110,000</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>213,733</td>
<td>143,543</td>
<td>206,295</td>
<td>214,135</td>
<td>187,374</td>
<td>202,070</td>
<td>213,000</td>
<td>77,161</td>
<td>285,000</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>154,308</td>
<td>112,404</td>
<td>117,237</td>
<td>220,109</td>
<td>190,681</td>
<td>216,435</td>
<td>184,260</td>
<td>159,695</td>
<td>188,110</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>263,426</td>
<td>318,499</td>
<td>413,692</td>
<td>386,321</td>
<td>367,363</td>
<td>461,661</td>
<td>552,657</td>
<td>687,922</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>715,548</td>
<td>1,108,115</td>
<td>1,152,938</td>
<td>1,367,059</td>
<td>1,313,418</td>
<td>1,146,362</td>
<td>1,019,389</td>
<td>980,810</td>
<td>1,291,447</td>
<td></td>
</tr>
<tr>
<td>Estimated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In. U.S.S.R.</td>
<td>5,873,256</td>
<td>--</td>
<td>--</td>
<td>5,558,762</td>
<td>6,289,888</td>
<td>6,194,364</td>
<td>6,320,000</td>
<td>6,480,000</td>
<td>7,320,000</td>
<td></td>
</tr>
<tr>
<td>Ex. U.S.S.R.</td>
<td>4,677,002</td>
<td>--</td>
<td>--</td>
<td>4,710,068</td>
<td>5,264,042</td>
<td>5,095,838</td>
<td>5,210,000</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

Source: Appendix B.
The world food situation continued critical in 1947-1948 and the problem of adjusting supplies and requirements was intensified. Large areas of Europe suffered major crop disasters and the total European harvest was again about 600 million bushels below the prewar level (Table VIII-2). The smaller crops in Australia and Argentina which were higher than any year since 1928-1929. Beginning in the summer of 1948, many governments gradually removed or relaxed farm and distribution controls imposed during the war and postwar period. This relaxation took the form of bread de-rationing, lower flour extraction rates and reductions in farm delivery quotas, all of which tended to increase import requirements. National or international allocation machinery directly or indirectly controlled practically all world grain supplies until late 1948. When the 1948 crop came in it proved to be of record size. Since 1946 a major portion of world exports had been dependent on the current annual production and the large 1948 crop alleviated the shortage. High production continued in 1949, the domestic output of wheat in Europe being higher even than in 1948. Export supplies actually exceeded effective demand and the old fears of surpluses began to appear. In the United States a significant reduction in acreage was planned for 1950 through the acreage control program, and in Canada a reduction in acreage was also officially recommended. This apprehension in regard to surpluses probably contributed to the ratification of the Wheat Agreement to be effective with the 1949-1950 crop year.

By July 1, 1949, wheat stocks in the four major exporting countries had risen to 663 million bushels and by July 1950 to 787 million bushels (Table VIII-1). This level was 71 percent above the 1935-1939 average of 458 million bushels. Most of the increase occurred in the United States stocks. This increase in stocks together with the better position of importing countries as a result of two consecutive heavy crops lessened the dependency of trade on annual surplus production. The 1950 crop in Europe was much better than in 1949, but some other areas of the world were not so fortunate. The grain output in India suffered seriously from weather and large imports had to be procured, much of which was carried over into the 1951-1952 crop year. World production as a whole, however, was favorable, the 1950 crop being the largest one since 1938, except for the record harvest of 1948.

By July 1, 1951, the stocks in the four major exporting countries had reached 800 million bushels, though all the increase from the previous year occurred in Canada, the other three exporting countries showing a decrease.

During the 1951-1952 crop year it appeared that the needs of importing countries would rise still further. The increase is due not only to lower production, but also as an outgrowth of expanding economic activity, a tendency to increase reserves, the increased use of wheat in some importing countries for feed purposes, and the availability of imports to many countries under the International Wheat

Agreement at prices below those of the free market. This was apparent in the previous year when, though European production was much better than the large crop of 1949, one-half the increase in wheat shipments in 1950-1951 went to Europe. For 1951-1952, however, production in many of the Western and Northern European importing countries was not so abundant due to adverse weather. Production was down in the United Kingdom compared to 1950. Italian production was down 12 percent, Belgium, 10 percent; the Netherlands, 16 percent. Sweden, normally an importer of negligible quantities, had a sizeable deficit due to a 20 percent decrease in production. The quality of the European wheat crop was also low, and in addition, it was expected that scarce feed supplies would result in the retention of more wheat on the farm. On the brighter side, Western Germany had 11 percent larger wheat crop and the best one since the war. It was thought that Spain, with a crop 30 percent higher than the previous year could possibly forego imports. Greece and Portugal had crops nine percent and 11 percent higher, respectively. However, the increased needs of the lower crop European countries exceeded the diminished needs of the higher crop group so the wheat import needs were therefore expected to exceed the amount taken in 1950-1951 (14 million tons).

128/ F.A.O., Commodity Reports, Grain, December 1, 1951.
129/ Ibid.
Japan, one of the substantial importers outside of Europe, contemplated about the same volume of imports. India had another unfavorable season and at the same time she was still continuing to import to make up the previous year’s deficit. The result was that India’s planned imports of 110 million bushels for 1951-1952 were raised to 184 million bushels.

North American producers supplied a relatively larger proportion of the supplies in 1951-1952. Canada experienced a very large crop and with the increased carryover, one of the largest annual supplies on record was available. Canadian exports of wheat of 350 million bushels surpassed the previous record set in 1928-1929. In the United States crop restrictions were withdrawn before the spring sowing season of 1951. The crop of 981 million bushels was the lowest since 1943, but still much higher than prewar. Some withdrawal from stocks was necessary as exports from the United States reached about 470 million bushels, a quantity exceeded only in the peak years 1947-1948 and 1948-1949. For the 1952 crop a large acreage goal sufficient to produce nearly 1.2 billion bushels with average yields was set, and this production goal was more than met.

The United States and Canada supply such a large proportion of the available world exports that developments in their supplies usually outweigh the fluctuations in the supplies from Argentina and Australia, but the latter two countries are still very important in the world trade picture as the only considerable non-dollar source of wheat. Some problems were presented by the decline in production
Wheat acreage in Argentina was about 15 percent less than the previous year, and as a result of drought in addition, the wheat available did not meet domestic requirements. The 1951-1952 acreage in Australia went down to 10.4 million acres from 11.7 million the previous year, due to increasing returns in livestock and wool production, increasing agricultural costs and scarcity of rural labor. On July 1, 1951, stocks were lower in both Argentina and Australia so no reserves were available. It became apparent that Australia would not be able to meet her International Wheat Agreement quota, and as mentioned previously, her quota was lowered from 88.7 million bushels to 72.0 million.

Most of the minor exporters had smaller crops in 1951-1952 than in 1950-1951. France, an exporter in recent years, had a smaller crop, and while meeting its International Wheat Agreement quota, seemed likely to be a net importer. The North African crop was not so good as the previous year. In the Near East, crops were considered unsatisfactory and Syria placed an embargo on grain exports. Turkey had a bumper crop and exported some. The U.S.S.R. Danube area is the largest possible supplier outside of the four major exporters, but the availability of wheat from this area is uncertain, depending largely upon trade policies.

The trade picture has been influenced by and interrelated with the production situation which has been briefly outlined. Immediately following World War II the great needs of the deficit areas resulted in large increases in exports from North America. Prior to
World War II, the United States and Canada supplies only about 36 percent of world wheat exports (Table VIII-3). By 1947-1946 this had risen to 73 percent and appears now that they will continue to supply about two-thirds of the world total. In the prewar period the four exporting countries (the United States, Canada, Argentina and Australia) provided about 75 percent of the wheat entering world trade channels, while 25 percent came from other countries, mainly Eastern Europe and the Danube Basin. In recent years, the four major exporters have contributed about 50 percent of the export supplies (Table VIII-3). The supplies of wheat coming from the United States have undergone the most significant change. The average exports from the United States in 1934-1938 amounted to only 51.4 million bushels, accounting for about eight percent of the world total exports. In the 1948-1949 crop year, 507 million bushels were exported from the United States, making up 51 percent of the world total (Table VIII-3). This peak fell off the following year to 38 percent of the total, but this year of contraction has since been followed by some expansion. The two Southern Hemisphere exporters (Argentina and Australia) have been supplying about the same amounts both in bushels and percentage of total exports as in the prewar period, at least until the 1951-1952 crop year. During the latter crop year, exports from the Southern Hemisphere have declined drastically. Available exports have been estimated at about 50 million bushels compared to about 230.4 million in the 1950-1951 year, and most of this amount is from Australia, for the Argentine crop hardly met domestic requirements.
# Table VIII-3
Wheat Exports, A/ Prewar and 1945-1946 to 1950-1951 Inclusive

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000 Bushels</td>
<td>Percent</td>
<td>1,000 Bushels</td>
<td>Percent</td>
<td>1,000 Bushels</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>of Total</td>
<td>Total</td>
<td>of Total</td>
<td>Total</td>
</tr>
<tr>
<td>Argentina</td>
<td>121,251</td>
<td>19</td>
<td>102,882</td>
<td>11</td>
<td>62,458</td>
</tr>
<tr>
<td>Australia</td>
<td>106,557</td>
<td>17</td>
<td>102,882</td>
<td>11</td>
<td>124,916</td>
</tr>
<tr>
<td>Canada</td>
<td>176,370</td>
<td>28</td>
<td>209,439</td>
<td>22</td>
<td>220,440</td>
</tr>
<tr>
<td>United States</td>
<td>51,441</td>
<td>8</td>
<td>485,017</td>
<td>51</td>
<td>507,012</td>
</tr>
<tr>
<td>All Others</td>
<td>180,044</td>
<td>28</td>
<td>44,092</td>
<td>5</td>
<td>77,154</td>
</tr>
<tr>
<td>World</td>
<td>635,666</td>
<td>100</td>
<td>944,312</td>
<td>100</td>
<td>991,980</td>
</tr>
</tbody>
</table>

a/ Includes wheat flour.
c/ Crop year from July 1 to June 30.

Exports from all other countries, including the Soviet Union and the Danube Basin, are expected to be about the same in 1951-1952 as in 1940-1950, i.e., about 88 million bushels.\textsuperscript{130/}

Looking at the world wheat situation as a whole, some definite trends may be noted. On the export side, especially important is the increased significance of North America, particularly the United States, as a supplier of wheat since World War II, and the decreased significance of Eastern Europe and the Soviet Union. From a supplier of only eight percent of the world's total exports in the 1934-1950 period and even a net importer for part of this period and again in 1943, the United States has increased production and exports until she now supplies around 40 percent of the wheat entering international trade (Table VII-3). On the other hand, the proportion accounted for by Eastern Europe and the Soviet Union has declined from a prewar level of over one quarter to about 10 percent at present. The position of North Africa has reversed from that of exporter to one of importer of wheat.

On the importing side, Europe now takes larger quantities of wheat than before the war, though its share in the world total has declined somewhat. Importing countries, in general, have taken larger quantities than in the prewar period, but the main increase is accounted for by a small number of countries. In the peak year of 1948-1949 four countries (Western Germany, Italy, India, and Japan) imported more than one-third of the total grain shipped and accounted

\textsuperscript{130/} \textit{Wheat Situation, January-March, 1952.}
for about two-thirds of the increase in world wheat and flour shipments in that year as compared to 1934-1938.\textsuperscript{131} The United Kingdom and its procurement responsibilities, together with Benelux, accounted for an additional one-third of the international trade in grain, making six importing countries to account for two-thirds of the world grain imports. Only the United Kingdom and Benelux were among the first six importers in the 1930's. Western Germany has always been a deficit area, but much of its imports came from Eastern Germany and therefore did not show as an international movement. This movement of grain has ceased, yields have been lower and population has increased about 25 percent over prewar, so that Western Germany is now second only to the United Kingdom as a grain importer. Part of Italy's prewar needs came from the Balkans, a source no longer available. Her population has grown steadily and production has not been so great. All these have added to her need for greater imports. In Japan the empire economy has been broken up and practically all rice exports within this economy have ceased. Her population has also increased substantially. Many of the smaller countries which were once small and irregular importers have changed to become regular commercial markets (Mexico, South Africa, Egypt, Israel, Ceylon, New Zealand, Spain, Portugal). Other regular importers have shown marked increased in their needs for wheat (Cuba, Philippines and Venezuela.)\textsuperscript{132}

\textsuperscript{131} Grain Bulletin No. 10, p. 43.
\textsuperscript{132} Grain Bulletin No. 10, p. 44.
It would appear that Europe will continue to be the determining factor in the wheat trade but other areas, such as Asia and Latin America will become more important than at present. The total area in grain production in Europe is likely about as large as can be expected (Table VIII-2), though some shifts could occur among the grains. Any further production, therefore, will likely have to come from increased yields, and there would appear to be very definite limits to increasing per capita production in this way. Most European governments have set up goals for future bread grain production, but in most cases they are not greatly different from the 1934-1938 average production.\footnote{Grain Bulletin No. 18, p. 33.} Even if intra-European trade is restored to the prewar level and production targets are achieved, it will still be necessary to obtain around 80 percent of bread grain requirements from sources outside Europe. But there is considerable doubt in regard to the restoration of intra-European trade. In addition to the political barriers, Eastern Europe and the Soviet Union are placing greater emphasis on livestock and industrial production, so that at best grain exports are unlikely to become any more important than in the prewar period. Since many of the grain deficit problems have been brought on through population shifts and political and economic realignments, any changes in these factors could significantly change the existing trade patterns also.

The problem of foreign exchange still remains a major hindrance to grain movements, particularly to the European importers. This has
been made particularly significant due to the largest increase in available wheat supplies having occurred in the dollar areas of North America. Though a shortage of dollar supplies is almost a universal world problem, the grain deficit, as mentioned above, is mainly concentrated in a few countries (United Kingdom, Italy, Germany, and the Benelux Union). To the extent that the dollar problem of these areas can be resolved, the total grain deficit problem will be greatly reduced.

A word might be said in regard to the influence of the development of underdeveloped areas on the future needs for wheat. It has been estimated that an increase in consumption of only two ounces of wheat a day by the inhabitants in present areas of low living standards would require an additional 550-735 million bushels per year. Whether movements of wheat will take place to such areas will, of course, be based on factors other than need alone, but such a prospect does offer some hope towards the alleviation of any future surpluses that may arise.

In this latter connection, another factor became apparent in recent years, and that is the possibility of management of chronic surpluses by diversion to special use programs. The amount of wheat used industrially in the United States changed from practically none in the prewar period to about 108 million bushels in 1943-1944. Similarly the increased demand for livestock associated with high employment raised the amount of wheat used as feed from 100 million

134/ Grain Bulletin No. 18, p. 29.
bushels in 1935-1936 to 488 million bushels in 1943-1944. This possibility of diversion to other uses introduces an element of elasticity into a relatively inelastic demand curve for wheat used as food.

Looking at the postwar period as a whole, the prevailing characteristic seems to be that of wheat shortages. Though world production and trade have surpassed that of the prewar period, the import needs have continued to tax the ability of exporters to supply them. Beginning with the 1949 crop, some fears of surpluses began to appear but this outlook was quickly changed with the Korean War outbreak to one of continued high output and trade. Not only have there been physical production problems to be overcome, but economic and marketing difficulties, including transportation problems, freight rate increases, dollar shortages and increasing absorption of resources by rearmament programs, have put obstacles in the way of freer movement of grain and in many countries have almost placed grains in the category of a public utility, subject to an increasing degree of government regulation. As populations continue to increase and as international political alliances and antagonisms become more intensified, it would appear that the problem of balancing demand and supply for wheat on a global basis will continue to be acute for some time to come.

CHAPTER IX

THE AGREEMENT

Terms of the Agreement

The International Wheat Agreement of 1949 was formulated at the Seventh International Wheat Conference which was held in Washington from January to March, 1949. It may be briefly described as a contractual arrangement between the governments of certain importing and exporting countries involving the annual trade of an agreed amount of wheat over a period of four years beginning August 1, 1949, within a fixed range of prices. The objectives of the Agreement as stated are "to assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices." There were 42 countries that included specific guaranteed quantities. They consisted of 37 importing countries and five exporting countries. Of this number, one importer (Paraguay) did not sign the Agreement during the period that it was open for signature, two importers (China and Columbia) and one exporter (Uruguay) did not ratify during the extended period allowed for ratification (through February 28, 1950). The U.S.S.R. did not participate in the final negotiations because a quota of 50 million bushels was offered by the importing countries compared to 75 million bushels which Russia requested. Argentina did not participate because the maximum price was considered too low. However, during the first year six additional importing countries joined or were approved for membership, so that at the end of the first year there were 40 importers and four exporters included. Iceland and
Japan have since been brought into the Agreement to bring the total in the third year to 46 countries. Some other countries have made application to join, but due to the inability of the four exporting countries to commit themselves further under the Agreement, these requests have been held in abeyance.

Each member country has a specific guaranteed quantity to be purchased or sold. These quantities were determined by a process of negotiation. Importing and exporters submitted quantities which they were prepared to buy and sell and it then became necessary to equate total purchases and sales. The division of this total among exporters was based roughly on a combination of factors relating to ability to supply, historical trade patterns, and supply responsibilities outside the Agreement. However, exporters are obligated to sell only at the maximum prices and importers are obligated to buy only at the minimum prices. Between this maximum and minimum price range the free market forces may operate and there are no obligations in regard to quantities except the realization that quotas may possibly be enforced at some time during the marketing year and it might therefore be expedient to have satisfactory quantities recorded against the obligations.

The maximum price set was $1.80 per bushel for No. 1 Manitoba northern wheat in storage at Ft. William (Port Arthur). The minimum price was $1.50 per bushel, to be decreased each year by 10 cents to

a minimum of $1.20 for the 1952-1953 crop year. At the time the prices were set, Canadian and United States currency was at par, so the prices represent United States currency per bushel also. Six weeks after the Agreement came into operation, widespread devaluation took place so the price equivalent in Canadian dollars changed, but the prices in United States dollars remained the same.

The Agreement is administered by an International Wheat Council consisting of representatives of all member nations. Importing members hold 1,000 votes and exporting members hold 1,000, distributed between them in proportion to their guaranteed purchases and sales. Due to this method of representation, any decision of the Council requiring a two-thirds majority of the importing and exporting countries voting separately will require approval by the United States among others.

In addition to the Council an Executive Committee is provided, composed of members from three exporting and not more than seven importing countries. Votes are weighted so that the exporters and the importers have equal voting power. Also established is an Advisory Committee on Price Equivalents made up of representatives of three exporting countries and three importing countries to advise the Executive and the Council on technical matters relating to equivalent prices. Provision is made, of course, for a Secretariat, though a very large part of the responsibility for handling much of the detail work in regard to individual sales and purchases is left to the individual countries. It is the responsibility of the exporting
countries, being fewer in number, to report transactions for recording by the Council.

Any country is free to buy or sell any wheat additional to its Agreement commitment at any price it desires. Signatory governments also reserve complete liberty of action in the determination and administration of their domestic agricultural and price policies, but they will endeavor to operate these policies in such a way as not to impede the free movement of prices of wheat in international trade between the maximum price and the minimum price. The Agreement does not bind any buyer to any particular seller nor does it stipulate any particular method of buying and selling. In fact, it provides that exporting and importing countries shall be free to buy or sell their guaranteed quantities "through private trade channels or otherwise."

The Agreement contains escape clauses which may relieve a country of its obligations under three conditions:

(1) An exporting country may be relieved of all or part of its obligation in a particular crop year by reason of a short crop.

(2) By a majority vote of the Council an importing country may be relieved of all or part of its obligations for a particular crop year if necessary to protect its balance of payments or monetary reserves.

(3) An exporting or importing country country may withdraw from the Agreement if it considers its national security to be endangered by the outbreak of hostilities.
Provision is made in the Agreement to accommodate already exist­
ing agreements covering wheat sales and purchases, provided the
countries concerned agree, and any transactions entered into prior to
the new Agreement may count toward the guaranteed quantities of those
countries.

The quotas to which each member country is committee are shown
in Table IX-1. The annual quota remains the same throughout the four
years of the Agreement. For countries which entered the Agreement
after the beginning of the Agreement or whose quotas were changed dur­
ing the first year, an adjusted quota is shown. Initially the total
trade under the Agreement was to involve 456.3 million bushels. By
the end of the first year as a result of new importers entering and
adjustment of previous quotas, the total had increased to 525 million
bushels. At the end of the second year the total stood at 562 mil­
lion bushels and with the addition of Japan effective with the open­
ing of the third year on August 1, 1951, the new total under the Ag­
reement became 581 million bushels. The exporter totals now stood
at 255 million bushels for the United States, 233 million for Canada,
83.7 million for Australia and 4.1 million for France.

Due to the small wheat crop harvested in Australia in 1951, the
International Wheat Council announced on May 1, 1952, that Australia's
quota for the 1951-1952 crop year had been reduced from 83.7 million

137/ Boals, G.P., "International Wheat Agreement - Its Second Year,"
to 72.0 million bushels. Of the reduction of 16.7 million bushels, 5.5 million were allotted to Canada, raising its quota from the 233.0 million mentioned above to 238.5 million. The remaining 11.2 million bushels was not assigned although there were indications that the United States might take part of it.

Transactions and Administrative Problems

During the crop year ending July 31, 1950, the first year of the Agreement, purchases and sales recorded against guaranteed quotas totaled 432 million bushels. The total guaranteed quantity in effect at the end of the year was 525 million bushels, so that sales constituted about 82 percent of the quantities guaranteed under the Agreement. However, many countries entered the Agreement late in the crop year and were therefore not expected to take their full annual quota the first year. When adjustments are made in the quotas for late accessions, sales were 92 percent of the adjusted quota.\(^\text{139}\/\) In relation to world trade in wheat and flour, transactions under the Agreement during 1949-1950 constituted about 53 percent of total trade.\(^\text{140}\/\)

The main deficiencies in meeting their quotas were registered by Brazil, Italy, and Germany. As already mentioned, Germany entered the Agreement when the year was three quarters over and though this nation imported over 77 million bushels from the United States, only 32 million were recorded under the Agreement. A similar situation existed for the Philippines due to failure to ratify the Agreement until late in the crop year. Brazil, an importer of over 33 million bushels annually, of which more than one-third is covered by her International


Wheat Agreement quota, purchased only a small fraction of this quota. Almost the entire Brazilian import requirement was met by non-agreement wheat from Argentina. Italy, in recent years has been importing more than 73 million bushels of wheat and flour annually, of which about 40 million bushels is covered by her International Wheat Agreement quota. However, in 1949-1950 her total imports were cut in half due to better domestic supplies, and much of the remainder of her needs was obtained from non-dollar sources. Several smaller importing countries, including Lebanon, Saudi Arabia and Sweden, took less than half of their guaranteed quantities. Other countries which left portions of their quotas unfilled were Bolivia, Ireland, New Zealand and Panama. The reasons why some importers did not take advantage of their purchase rights were complex and varied from country to country, but important factors were increased domestic production and deficits of dollar currency.

On the exporting side, both Australia and France supplies their guaranteed amounts. Canada sold 50 percent of her quota and the United States, 60 percent. This may be accounted for in part by the late accession or ratification by Germany and the Philippines already mentioned, and the failure of Brazil and Italy to buy up their full amounts, much of which probably would have been obtained from North America. If account is taken of the countries which did not participate for the full year, the sales from the United States amounted to 83 percent of her adjusted quota.\footnote{Ibid., p. 8.}
The importing countries were obligated to buy their full quotas only at the minimum price, so it would have been theoretically possible for Canada and the United States to have sold their full quota at $1.50 per bushel. The free market price was above the maximum of $1.30 throughout the year, and to sell at the minimum price level would have involved additional subsidy. As it was, most of the signatory importers were glad to be able to obtain their quota at the lower Agreement price.

Most of the shipments of non-agreement wheat originated in the United States, Argentina, the Soviet Union and the Danube Basin. Some additional was supplied by Canada and Australia. The non-agreement sales from the United States were a little smaller than the Agreement sales and were mainly to Germany, before her accession, and to Japan which has since joined the Agreement. Some was also shipped to Cuba and the Philippines before their ratification, and to E.C.A. countries before Congressional action in October, 1949 permitted E.C.A. financing of Agreement shipments. Thus, many of what were previously markets outside the Wheat Agreement have since been brought under it.

The second year of the International Wheat Agreement was characterized by a higher amount of the guaranteed quantities being purchased. The total quantity under the Agreement was increased about 37 million bushels over the 1949-1950 crop year to bring the total guaranteed to 562 million bushels. At the same time the total amount of wheat and flour actually handled under the Agreement increased by about 99 million bushels over the previous year, so that the total
sales recorded amounted to nearly 95 percent of the total quantities guaranteed. Twenty-four importing countries bought the full amount of their guaranteed quantities, while most of the remaining 17 importers bought amounts closely approaching their guaranteed quantities (Table IX-1). Brazil, Italy and Saudi Arabia, while buying a larger portion of their quota than in 1949-1950, still did not buy their full amount. These three countries, together with Honduras, took about two-thirds of their guaranteed quantities. Iceland took only a small proportion of her quota but this was due mainly to joining the Agreement only a few weeks before the end of this crop year.

On the exporting side, Canada was the only country with any significant amount unsold. A large part of the Canadian crop suffered frost damage in 1950 and was therefore of low grade, and in addition, wheat movements from Canada were hampered by internal transportation problems. As a result, Canada sold approximately 86 percent of her guaranteed quantity. The United States met the full amount of her quota while Australia and France lacked only two percent and five percent respectively of filling their guaranteed quantities.

In relation to the total world trade in wheat and flour, the amount represented by Agreement sales has increased considerably since 1949. During the first year, the quantity under the Agreement represented a little over half of total trade while by the end of the second year it had risen to approximately two-thirds.\footnote{Foreign Agriculture, October, 1951, p. 208.} The position of the Agreement exporting nations has changed too. When the
Agreement was first negotiated, Canada was the major exporter. With new accessions and increased quotas, the United States has assumed an increasing importance until she has now become the largest exporter under the Agreement, with a quota of 255 million bushels. Of the total amount of wheat shipped from the member exporting countries, approximately two-thirds moved under the I.W.A. (Table IX-2). The percentage has been higher than this in Canada and Australia and lower for the United States and France.

A notable difference in the transactions during the second year as compared to the first is seen in the rate at which sales took place during the year. During the 1949-50 crop year, purchases and sales took place at a fairly uniform rate throughout the year. In the 1950-51 crop year most of the transactions took place in the early part of the year, the bulk of them being recorded between August 1950 and March 1951. The United States' quota was filled by March and would likely have been completed a month earlier had not sales been suspended for awhile as a result of heavy placing of orders by importers. Australia and France also had sold most of their quotas by the middle of the crop year. Early purchases were encouraged by the unsettled world situation following the Korean hostilities, which caused importers to attempt to make their current position more secure and to stockpile some for future requirements.

The price advantage of Agreement wheat and the realization that

143/ Foreign Agriculture, October, 1951, p. 207.
Table IX-2
Total Exports and Exports Under International Wheat Agreement for Member Exporting Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>1949-50</th>
<th></th>
<th></th>
<th>1950-51</th>
<th></th>
<th></th>
<th>1951-52</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Exports(^a/)</td>
<td>I.W.A. Exports(^b/)</td>
<td>Percent of Total</td>
<td>Total Exports(^a/)</td>
<td>I.W.A. Exports(^b/)</td>
<td>Percent of Total</td>
<td>Total Exports(^a/)</td>
<td>I.W.A. Exports(^b/)</td>
</tr>
<tr>
<td>United States</td>
<td>311,842</td>
<td>162,548</td>
<td>52.1</td>
<td>370,829</td>
<td>249,048</td>
<td>67.2</td>
<td>481,932</td>
<td>255,284</td>
</tr>
<tr>
<td>Canada</td>
<td>234,862</td>
<td>185,433</td>
<td>79.0</td>
<td>218,995</td>
<td>190,921</td>
<td>87.2</td>
<td>346,114</td>
<td>241,582</td>
</tr>
<tr>
<td>Australia</td>
<td>115,135</td>
<td>80,789</td>
<td>70.2</td>
<td>128,388</td>
<td>87,284</td>
<td>68.0</td>
<td>100,463</td>
<td>71,231</td>
</tr>
<tr>
<td>France</td>
<td>21,018</td>
<td>3,323</td>
<td>15.8</td>
<td>35,989</td>
<td>3,883</td>
<td>10.8</td>
<td>7,131</td>
<td>4,069</td>
</tr>
<tr>
<td>Total</td>
<td>682,857</td>
<td>432,093</td>
<td>63.3</td>
<td>754,201</td>
<td>531,136</td>
<td>70.4</td>
<td>935,640</td>
<td>572,166</td>
</tr>
</tbody>
</table>

\(^a/\) July-June.
\(^b/\) August-July.

further quota increases appeared doubtful had a further stimulating effect on early purchases.

Transactions under the Agreement in 1951-1952 were complicated by the short crops in the southern hemisphere. As mentioned in the previous section, Australia's quota was reduced from 88.7 million bushels to 72 million. Japan was included for the first time as an importer. Canada and the United States increased their guaranteed quantities to cover the deficit left by Australia and to meet the additional needs of Japan. The total deficit was not entirely met, however, and the amount guaranteed by the exporting countries was reduced from 580.9 million bushels originally guaranteed for the third year of the agreement, to 572.8 million (Table IX-1). Germany, South Africa and Spain unofficially agreed to forego part of their quotas, so that the wheat actually moved under the I.W.A. for 1951-1952 was 572.2 million bushels or 99.9 percent of the amount made available by the exporting countries. This was also 98.5 percent of the amount originally guaranteed for 1951-1952. Aside from the three importing countries just mentioned, all the other member importing countries appear to have purchased the full amount of their quotas.

Throughout the first three years of the Agreement, transactions both intergovernmental and through private trade seem to have been carried out without undue complications. Most of the difficulties appear to have been operational and were settled by agreement between the countries concerned or by the Executive Committee or Council. Most of the discussion and the decisions arrived at appear to reflect
an emphasis on the intent of the agreement rather than entirely on the specific wording. Some of the operational problems that have arisen relate to resales of wheat purchased under the Agreement, pricing of forward contracts, and nature and amount of carrying charges. While in some cases, specific solutions to the problems were not handed down, the spirit and intent of the Agreement seemed to set the criteria that was outlined to be used in assessing each case on its individual merits.

A further operational difficulty encountered occasionally was that of over-subscription by exporting countries of an importing nation's quota. An example of this occurred when the Panama quota for 1952-1953 was opened and was immediately over-subscribed by Canada and the United States. The Canadian recording of sales reached the London office of the International Wheat Council a day earlier than the United States recording, with the result that almost all of the quota went to Canada. This shut out a number of American flour mills with established business in that country. This sort of difficulty can in part be overcome by licensing procedures in the importing countries, at least insofar as it would avoid the rejection of sales considered to have been made. However, there have been complaints that an element of restrictionism has appeared in the licensing systems in a few instances. It has been claimed that political favoritism in issuing licenses has been shown to particular importing

144/ Letter from Herman Fakler, Vice President, Millers National Federation, September 18, 1952.
companies. Since these companies may be those buying from sources which have not been traditional suppliers to that market, such suppliers are denied access to the market on non-economic grounds. Due to the complex integration of political and economic policies it is difficult to determine the amount of such restrictionism. Much of it is the result of internal politics, however, and to a large extent outside the control of the International Wheat Council.

Economic problems still continued to hamper the operation of the Agreement, particularly the dollar shortage. Germany and Japan, both sizable importers, applied for accession to the Agreement in November, 1949. However, in the eyes of some importers, particularly the United Kingdom, this would have increased the competition among the importing countries for the non-dollar wheat that was available. These countries were in favor of a conditional accession only. The exporting countries and some of the importing countries rightly felt that this would be contrary to the multilateral character of the agreement. Germany was admitted in March, 1950 only after the fears of the importing countries had been allayed by an informal assurance on the part of Germany that her wheat purchases would be made in an acceptable manner. A similar agreement was made by Spain prior to her accession. Neither of these informal assurances was recognized or endorsed by the Wheat Council.

Japan was unconditionally admitted to the Agreement in June, 1951 and at the same time the United Kingdom delegate suggested that Germany and Spain be released from the informal assurances they have previously made. However, for more than a year the non-dollar wheat exporters had been unofficially deprived of complete freedom to sell their quotas to any importing country they wished, which in effect, appears to be contrary to the spirit of the Agreement.
CHAPTER X

THE EFFECT OF THE AGREEMENT ON WHEAT PRICES

The period following World War II has been characterized by relatively short wheat supplies and high prices. In each crop year from 1945 to 1948, the price of wheat was above $1.80 per bushel and imports of signatory countries have averaged 526.3 million bushels or 15.4 percent above the 456 million bushels guaranteed originally under the present International Wheat Agreement. Of all the articles in the Agreement of 1949, the one relating to prices probably provided the most controversy and resulted in the ultimate failure of the 1949 Agreement and in considerable delay in the 1949 negotiations. Although world prices were above the maximum suggested for the Agreement, some importing countries still felt that the prices were too high in terms of what might be considered reasonable over the several year period contemplated by the Agreement. The relatively high prices in the world market have continued throughout the three years the Agreement has been in operation, except for a short period in early 1950. Agreement wheat has thus sold at prices close to the maximum during this period.

The Agreement has aimed at "equitable and stable prices," but some difficulty is experienced in deciding just how equitable or

147/ Golay, F.H., Ibid.
fair the prices really are. As one writer puts it: "Differences between countries, internal regional differences, variations in costs of production, changes in yield from season to season, all render it virtually impossible, in a short period at any rate, to determine prices that are equitable even to the majority of farmers in the exporting countries. On the other hand, importing countries have to balance their desire for cheap wheat with their policies of protecting their own producers, while the financial position of each importing country might differ so that prices considered fair by one thought unfair by another. In the final analysis, the conception of fair prices from the importers' point of view was probably governed by the ability of the Agreement to assure a regular and stable supply, and afford some relief from prevailing high prices." 149/

In considering the effect of the Agreement on wheat prices, several aspects are important - the prices paid by ultimate consumers; prices received by wheat producers; prices paid and received by signatory importing and exporting countries under the Agreement (i.e. contract prices); and free market prices on the world market, which would be the price in the absence of the Agreement, or for non-signatory countries, or for wheat sold by signatory countries in excess of their Agreement quotas. Three demand and supply relationships may be recognized:

(a) In the absence of the Agreement, the relationship would be such that the world market price of wheat would be above the Agreement maximum.

(b) With no Agreement, the price of wheat on the world market would fall between the limits set in the Agreement.

(c) With no Agreement, the world market price would be below the Agreement minimum price.

Since, as mentioned above, the free market price of wheat has been above the Agreement maximum almost continuously since World War II, it is likely that only the relationship mentioned in (a) has any significance.

Under these conditions then where the market price is above the Agreement maximum and the Agreement is in force, the purchases of importing countries are of two kinds: (1) guaranteed purchases obtained at not more than the Agreement maximum price, and (2) purchases in excess of the Agreement guarantee for which the free market price must be paid. For their entire purchases, the average price paid would be less than the current market price since a portion of the total is obtained at the Agreement price which is lower than the market price. Without the Agreement in force, the average price paid would be the market price. If it can be assumed that the price paid by the ultimate consumers in the importing country is directly related to the average price of the imported wheat, and that the demand possesses a certain degree of price elasticity, the amount of wheat demanded will be greater at given market prices above the Agreement
maximum when the Agreement is in force than without it.

The effect of the Agreement on the amount of wheat supplied by producers in exporting countries varies with the domestic price policies in the member exporting countries. At market prices above the Agreement maximum, the price received by United States growers would be the market price or the domestic support price, whichever was higher, and the Agreement would have no influence on their price and hence on the supply. In Canada and Australia, a form of pooling of receipts from the sale of wheat is carried on, the growers receiving a price based on the average received from sales under the Agreement and sales in excess of the Agreement quantities at market prices. In the absence of the Agreement, at market prices above the Agreement maximum, the average price received would be the market price. With the Agreement in effect and market price higher than the maximum price, the average price received by Canadian and Australian producers will be lower than the current market price since the guaranteed sales will be sold at the lower Agreement price. Therefore, the supply would be expected to be less with the Agreement in force than without it.

Assuming then, these demand and supply relationships, a comparison is made in Figure X-1 between the market price existing in the absence of the Agreement and the market price with it in force. The demand for wheat in the world market is represented by the curve DD, while the supply is represented by SS. The market price, P₁, is higher than the Agreement maximum of $1.80. The increased demand and
the smaller supply at market prices above the maximum with the Agreement in force are represented by $DDD$ and $SSS$ respectively. The new market price, with the Agreement in force, $P_2$, is higher than the market price, $P_1$, which was in effect without the Agreement.

**Figure X - 1**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$DD$</td>
<td>Demand without the agreement</td>
</tr>
<tr>
<td>$SS$</td>
<td>Supply without the agreement</td>
</tr>
<tr>
<td>$P_1$</td>
<td>Market price and average price without the agreement</td>
</tr>
<tr>
<td>$P_2$</td>
<td>Market price with agreement is higher than without the agreement</td>
</tr>
<tr>
<td>$a$</td>
<td>$P_1 - 1.80$</td>
</tr>
<tr>
<td>$b$</td>
<td>$P_2 - P_1$</td>
</tr>
</tbody>
</table>
Since the average price is a combination of Agreement prices and the higher market prices, the average price paid by importing countries would be greater than without the Agreement if the amount saved on guaranteed purchases (a x Agreement purchases) is less than the increased outlay for imports in excess of Agreement purchases (b x imports above Agreement purchases). In other words, the average price paid by a signatory importing country depends upon the ratio of imports outside the Agreement to imports under the Agreement.

Thus, under conditions where the market price is above the Agreement maximum and is higher than it would otherwise be in the absence of the Agreement, it is conceivable that some importing countries could have higher consumer prices under the Agreement than in the absence of the Agreement, and due to the relative inelasticity of the demand for wheat, consumers in the importing countries could have a greater total outlay. However, most of the member importers seem to have been aware of the price advantages attainable under the Agreement and the pressure has been considerable from many countries to increase the quotas. Of the larger importers, the I.W.A. imports of the United Kingdom for 1951-1952 represents 96 percent of her import supplies of wheat, of Belgium 67 percent, Italy 61 percent, Western Germany 82 percent, and India 40 percent.¹⁵⁰/ No precise determination of the difference in average import price under the Agreement and in the absence of the Agreement is possible, since the market price that would

¹⁵⁰/ Letter from Foreign Agriculture Service, United States Department of Agriculture, May 8, 1953.
prevail in the latter situation is unknown, but for most of the major importers at least, the ratio of contracted imports to those in excess of the Agreement quota seems high enough that there is little doubt that pricewise the importing countries have benefited considerably.

The average price received for wheat in the member exporting countries will depend, as already mentioned, on the price and marketing policies of the country. In the United States the price received by producers and the price paid by consumers will be the higher market price resulting from the Agreement when this price is above the price-support level established by the Commodity Credit Corporation. Exporters selling wheat at the lower Agreement price would be subsidized by the use of funds created by Public Law 421, 81st Congress, October 27, 1949. The Secretary of Agriculture may also use funds obtained under Section 32 of the Agricultural Adjustment Act of 1933, which permits the use of 30 percent of customs receipts to subsidize the export of agricultural products.

For Canada and Australia, the effect of the Agreement on the average price of wheat exported will depend on the ratio of guaranteed sales to sales in excess of the guaranteed quota. Without the Agreement, the average price received would be the market price. Under the Agreement, the average price received by Canadian and Australian producers will be higher than without the Agreement when the increase in receipts for exports in excess of the quota \((b \times \text{exports in excess of guaranteed sales})\) is greater than the reduction of
receipts resulting from sales under the Agreement (a x guaranteed sales) (see Figure X-1). In Australia wheat is sold to domestic consumers at the basic guaranteed price which is not affected by the Agreement. In Canada the price for domestic use is the agreement price.

The relationship between the average exportable surplus of Canada and Australia and the amounts of wheat that have been assigned as quota under the Agreement may be seen from the figures for the period 1925-1941. The average Australian wheat output was 156 million bushels, of which 87 million bushels was the average annual exportable surplus. During the same period, Canadian production averaged 377 million bushels annually, of which 245 million bushels constituted exportable surplus.\textsuperscript{151/} Using the guaranteed quantities as of the end of the first year of the Agreement, namely, 80.8 million bushels for Australia and 205 million bushels for Canada, the ratio of guaranteed sales to exports in excess of guaranteed sales would be $\frac{80.8}{6.2}$ or 13.0 for Australia and $\frac{205}{40}$ or 5.1 for Canada.

Applying a similar analysis to the very short run period covered by the first two years of the Agreement, the following results are obtained:

\textsuperscript{151/} F.A.O. Commodity Series, No. 10, Grain Bulletin, January 1949, Table A-1, p. 41, and Table B-2, p. 54.
Australia

<table>
<thead>
<tr>
<th></th>
<th>1949-50 (mil. bu.)</th>
<th>1950-51 (mil. bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports of wheat*</td>
<td>113.9</td>
<td>127.1</td>
</tr>
<tr>
<td>Actual Agreement sales**</td>
<td>80.8</td>
<td>87.3</td>
</tr>
<tr>
<td>Non-Agreement sales</td>
<td>33.1</td>
<td>39.8</td>
</tr>
<tr>
<td>Ratio</td>
<td>(\frac{80.8}{33.1} = 2.4)</td>
<td>(\frac{87.3}{39.8} = 2.2)</td>
</tr>
</tbody>
</table>

Canada

<table>
<thead>
<tr>
<th></th>
<th>1949-50 (mil. bu.)</th>
<th>1950-51 (mil. bu.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports of wheat*</td>
<td>235.1</td>
<td>225.6</td>
</tr>
<tr>
<td>Actual Agreement sales**</td>
<td>185.5</td>
<td>190.9</td>
</tr>
<tr>
<td>Non-Agreement sales</td>
<td>49.6</td>
<td>34.7</td>
</tr>
<tr>
<td>Ratio</td>
<td>(\frac{185.5}{49.6} = 3.7)</td>
<td>(\frac{190.9}{34.7} = 5.5)</td>
</tr>
</tbody>
</table>

* Table VIII-2.
** Table IX-1.

The ratios based on the production and export pattern for the 24 years prior to the Wheat Agreement of 1949, and also for each of the first two years of the Agreement seem to indicate from the high proportion of agreement sales that the additional return on wheat sold in excess of guaranteed quantities would not be sufficient to compensate for the decrease in returns on the wheat sold under the Agreement. The average prices received by Canadian and Australian producers, therefore, are likely less with the Agreement in effect than they would be in the absence of the Agreement, under present price conditions.

The price received by non-member exporting countries such as Argentina, the Danube Basin and Russia, would be the higher market price resulting from the Agreement. Non-member importing countries also would pay the higher market price for their wheat purchases regardless of whether the imports came from member exporters or not.
If the Agreement had been able to accurately predict demand and supply conditions such that the market price falls within the range set by the maximum and minimum price equivalents, there would be no effect on wheat prices. Member importing countries would obtain their imports at market price. Member exporting countries could sell their wheat at the market price, although they would be under no obligation to sell as they were in the case described above, where Agreement wheat was selling at about the maximum price equivalent.

The possibility of demand and supply conditions being such that the market price, in the absence of the Agreement, would be below the minimum price equivalent appears highly unlikely within the period covered by the Wheat Agreement of 1949. Under such conditions, however, the analysis would be the reverse of the first case described above. With the Agreement in effect, the average price paid for wheat imports by member countries would be higher than the market price. In the absence of the Agreement, the average price paid by member importing countries would be the market price. The quantity of wheat demanded by importing countries would, therefore, likely be less with the Agreement in force than without it.

In regard to the exporting nations under these conditions, it is unlikely that the amount supplied by Canadian and United States producers would be affected by the Agreement. The United States is committed to a price support program which gives a price to producers considerably above the Agreement minimum. As long as the price supports continue to be tied to the parity concept, the prices of things
farmers buy would have to fall drastically to bring the support price down to the Agreement minimum. Canadian producers have also been guaranteed an initial price each year that has been above the minimum price equivalent. Due to the nature of price supports in these two supporting countries then, it seems unlikely that the Agreement would affect supplies at a level of market prices below the minimum price equivalent.

The situation is somewhat different for Australia under these conditions. The price guaranteed to Australian producers has been considerably lower than the minimum price equivalent for any year of the Agreement. In the absence of the Agreement, at market prices below the minimum price equivalent, the average price received would be the market price. With the Agreement in force, the average price received would be higher than the market price, due to the influence of the higher minimum price equivalent which is received for the guaranteed sales. Due to this higher average price effect, the quantity of wheat which producers would be willing to supply would be greater with the Agreement in force than without it. Such an effect then, is actually counter to what might be expected if adjustment were automatic under the price system.

As in the first demand and supply situation discussed above, it is now possible to compare the market price in the world market, in the absence of the Agreement with that with it in force. Under the conditions being considered, where the market price in the absence of the Agreement is below the current minimum agreement price, the quantity of
wheat demanded would be less and the quantity supplied more with the Agreement in force than in its absence. Therefore, the market price would be lower with the Agreement in effect.

For the individual member importing countries, the average price paid for wheat imported would be lower than without the Agreement when the saving on imports in excess of Agreement purchases which are obtained at the lower market price, is greater than the increase in the outlay necessary to obtain the Agreement purchases at the minimum price.

For non-member countries, both importers and exporters, the prices paid and received respectively will be the lower market prices resulting from the effects of the Agreement.
CHAPTER XI

THE EFFECT ON INCOMES AND EXPENDITURES

The Agreement as a Stabilization Device

What Constitutes Stability

One of the main objectives of commodity agreements to be generally accepted, is that of promoting stability. As expressed in the I.T.O. Charter, the aim is "to moderate pronounced fluctuations in the price of a primary product with a view to achieving a reasonable degree of stability on a basis of prices fair to consumers and remunerative to efficient producers, having regard to the desirability of securing long-term equilibrium between the forces of supply and demand."[152] The view thus appears to be one of stabilizing prices with the long-term equilibrium price as the norm. The view of the Food and Agriculture Organization was that commodity agreements "should contribute toward stabilization of agricultural prices at levels fair to producers and consumers alike."[153] This could mean something else again from the I.T.O. statement, for it is unlikely that all producers of a primary commodity would consider the equilibrium price to be a fair price. The Wheat Agreement of 1949 sets its sights merely on "equitable and stable prices" without mention of the level. In all these statements, the emphasis appears to be one

152/ Charter for the I.T.O., Article 54, Para. (c).
of price stability rather than stability of producer incomes or consumer expenditures. Though price stability and income stability are inter-related, programs which bring about one of them do not necessarily contribute to the other. As one writer puts it, "by and large producers as a group gain in year to year stability of income if prices are high when production is low, and vice versa. Though such compensatory action in their gross and net return is imperfect, it is by no means negligible." The two concepts should therefore be kept separately in mind when dealing with the stabilizing function.

In thinking about price stabilization, there is a tendency to give the concept of stability a statistical rather than an economic meaning. In statistical terms, stability means reducing the deviations from the mean, i.e. confining the fluctuations in price to a narrow range about a norm. From the point of view of the producer, stability viewed in the framework of the economic problems of poverty, insecurity and survival, may have a different meaning. The economic meaning of stability would place greater emphasis on income stability instead of price stability, than would the statistical meaning. To illustrate the economic meaning - "A range of income variation of 50 percent around a mean of $30,000 net income affects a family very differently from the same variation around a $3,000 income. In the first case, the downward deviations won't affect the family's every day life at all; in the second, they might wipe it out or reduce it

to abject poverty." 155/

If it happens that a sequence of poor crop years occurs, which is the rule rather than the exception in at least some agricultural areas, 156/ it may be that these same producers are not still there to enjoy the windfalls when a series of good years occurs. The goal of this welfare definition of stability would thus be to "stabilize an income floor close to adequate minimum subsistence requirements, rather than to reduce deviations from the long-time mean." 157/ Since the ability of a producer to remain solvent with a given level of income depends partly on the prices of the things he must buy, this concept is directly related to stabilized "real" prices rather than "money" prices for his commodity.

Since the "survival limit" of a producer's income is not only a function of prices received but also of production, costs, family living requirements, debt and tax obligations, etc., at best, commodity agreements could only be one of several policy approaches to provide this type of stability.

If price and income fluctuations to producers should be limited to provide a "survival" floor, it seems reasonable that consumers in importing countries should be entitled to a "survival" ceiling whereby the costs of their imports of essential food and raw materials would not increase excessively in periods of scarcity, and thereby

156/ Ibid., pp. 24-31.
prevent a decrease in their demand for other imports. Consuming countries would benefit indirectly from stability by the fact that primary producing countries would be better able to provide a more constant market for their industrial exports.

In formulating a criterion of stability, all these concepts seem to have some significance. Obviously the goals of both producing and consuming countries should be taken into consideration. In fact, since many of the major importing countries also produce wheat, it is almost obligatory that they be taken into consideration if high cost production is to be avoided. Wide fluctuations in prices should be mitigated, though a long run average price would seem to be unsatisfactory and unrealistic as a norm for an agreement consummated for a relatively short run period. However, at least implicit account should be given to trend, not only of the absolute prices of the commodity, but also of the prices in relation to the general price level. And to add a further element of income stability, cognizance should be given to the need to provide for a minimum guaranteed amount of export receipts to producers and a maximum guaranteed amount of foreign exchange expenditures to consuming countries.


For most agriculture products, large scale fluctuations in producers' incomes are most likely due to either fluctuations in demand, recurrent variations in yields or exceptional shortages and dislocations of the postwar type.\(^\text{158}\) The importance of any one of these

factors as a destabilizing influence will of course vary between commodities. The role which a commodity agreement can play in introducing an element of stability will depend on the extent to which it can reduce one or more of the factors themselves or else ameliorate their effects.

The same general type of instability that is present in all agricultural production occurs in wheat production, but the instability arising out of yield variations becomes considerably enlarged. Much of this additional instability results from the fact that most of the wheat is produced in semi-arid regions and thus faces wide unpredictable variations in yields. Low yields tend to bunch into sequences of two or more years in length and so do high yields. Usually yields of alternative crops fluctuate fairly closely together and such yield fluctuations are nearly universal within rather large areas. This rules out much of the stability that might otherwise be obtained through diversification. And it is doubtful if this form of instability characteristic of highly specialized semi-arid production could be helped much by stabilization of the economy at full employment levels, even though it would probably reduce the price instability of producers in the more humid areas.

Sharp fluctuations in demand are destabilizing to both producers and consumers alike. One writer has stated that it is instability of demand that is at the heart of most price instability in internation-

ally traded farm products. At the same time it would seem that in a broad international market, demand fluctuations would be less important than for a similar commodity sold only in a national market due to the fact that such an international market may provide the means whereby sharp fluctuations in demand in one area are compensated for by opposing fluctuations in another. However, such a market also makes it possible for demand for a commodity to be affected by capricious political action. Wheat production is inherently dominated by sufficient uncertainty that producers have difficulty in responding intelligently to price motivation, and the possibility of influencing markets through state trading, tariffs, quotas, etc., only adds to the uncertainty. The fact that such political action has historically been most apt to occur during periods of economic recession has made price fluctuations more drastic during such periods than they might otherwise have been.

The Wheat Agreement attempts to reduce fluctuations in demand by having importers guarantee to purchase a minimum quantity of wheat at a particular price during the period of the agreement. This would seem to rule out the danger of a drastic decline in demand. However, the price stabilizing effects of this demand assurance are limited to the extent that the guaranteed purchases do not cover the entire imports of most of the importing countries. This leaves a segment of the market vulnerable to cyclical, seasonal and other periodic fluctuations in demand. As a matter of fact, because a segment of the

market is left exposed, there opens up the possibility of greater free market price fluctuations arising as a result of the agreement than without it.

Part of this wide fluctuation may be due to shifts in demand as a result of the agreement itself. It was shown in the market model of the previous section that when the demand and supply situation was such that, in the absence of the agreement, the market price would be above the maximum Agreement price, market prices would be higher when the Agreement was in force than in its absence. Continuing the analysis in terms of the market model, at market prices above the maximum price equivalent, the importing countries in effect receive a subsidy on their guaranteed purchases. Their real income is thus greater than if they had to pay the market price for all their imports. Assuming at least some positive income elasticity of demand, this would tend to cause the demand to be greater at any market price above the agreement maximum than if that price applied to the whole of the quantity purchased. Similarly, at market prices below the minimum price equivalent, the importing countries would in effect, be paying a tax on guaranteed purchases. Their real income would be less than if they could obtain all their purchases at the market price. This would tend to reduce demand at any price below the agreement minimum price to less than it would be in the absence of the agreement. This demand situation is shown diagramatically in Figure XI-1.\footnote{Johnson, H.G., "The Destabilizing Effect of International Commodity Agreements on the Price of Primary Products", The Economic Journal, September, 1950, pp. 626-629.}
Figure XI-1

DD - Demand curve in absence of the agreement
OA - Guaranteed purchases (or sales)
OP₁ - Guaranteed minimum price
OP₂ - Guaranteed maximum price
OM & ON - Total quantities demanded at P₂ & P₁
D'D' - Demand curve with the agreement in force

D'D' coincides with DD between OP₁ and OP₂ when the guaranteed prices would be inoperative, but lies outside DD at prices above OP₂ and inside DD at prices below OP₁. If the total supply of wheat was less than the amount OM, the quantity at which the market price would equal the maximum price provided in the agreement, the price of the quantity sold in excess of the agreement guarantee would be higher than the market price would have been in the absence of the agreement. If the total supply of wheat exceeded the amount ON, the quantity at which the market price would equal the minimum agreement price, the price of the quantity sold in excess of the agreement guarantee would be lower than the market price would have been in the absence of the agreement. Thus, in such a situation where guaranteed prices cover only a portion of the total purchases of wheat by importing countries, part of the equilibrating effect of market price changes on demand is
eliminated. Thus, the shift in demand as a result of the agreement would have the effect of making the price elasticity of demand for wheat, which is usually considered low already, more inelastic at prices outside the minimum-maximum price range. This model thus leads to the conclusion that fluctuations in market prices would be more violent whenever the quantity supplied was more or less than the guaranteed amount, than they would be in the absence of the agreement.162/

Empirically, such a destabilizing effect would be difficult to prove, particularly in a period characterized by such dislocations as that in which the wheat agreement has operated. Any analysis in terms of a free "world" market, involving a free market price and a homogeneous product, wheat, is a gross over-simplification. However, if traditional assumptions as to the nature of demand have any validity there would appear to be, at least roughly, some truth in the analysis. It can be little more than a rough criterion though, when consideration is given to the fact that non-agreement prices consist of government supported or controlled prices in the United States, Canada, and Australia. And in other producing countries the price importing nations are willing to pay is probably determined less by the mere availability of wheat than by the fact that it is non-dollar wheat. Implicit also in the induced shifts in demand is the assumption that prices paid by importing countries will be reflected in prices paid by consumers in those countries. Since wheat marketing is handled

162/ Johnson, H. G., Ibid.
through government channels in most of the importing countries, such an assumption can only be accepted with reservation. In fact, under current conditions, "despite substantial saving of dollar expenditure by importing countries, there is no evidence of corresponding changes in the price of flour or bread to consumers in such countries." And while the analysis may have some measure of validity for signatory countries who import both agreement and non-agreement wheat, it is conceivable that at the lower levels of the demand schedule when, as a result of the agreement, the market price is lower than it would be otherwise, some non-signatory countries might become purchasers and thus cause the demand to be more elastic. This might be particularly true of the rice consuming areas of the world where wheat is being used as a substitute to an increasing extent.

For shifts in demand that are cyclical in nature, the International Wheat Agreement can provide some counter-cyclical influence. Through enforcement of the guaranteed quotas at the minimum and maximum prices during a cyclical price decline or rise respectively, a minimum of purchasing power is assured to producers and a limit placed on the necessary foreign expenditure of importing countries for wheat, thus preventing their aggregate demand for other imports from drastically declining. There are several limitations to the effectiveness of any counter-cyclical action however. Since not all trade in wheat is covered by the agreement, cyclical fluctuations can occur in that trade outside the administered market. This limitation is becoming

163/ F.A.O., Grain Bulletin No. 18, p. 17.
less significant as the proportion of wheat traded under the agreement rises. The anti-cyclical value would likely be greater for exporting areas than for consuming countries for consumer expenditures are much more diversified than wheat producers' output and any benefits deriving from wheat alone would be less noticeable for importers. And the overall economic impact of the wheat agreement is further limited by the fact that it could only form a small segment of any counter-cyclical policy and would be superseded as a general economic stabilizer by such determinants as monetary and fiscal policy.

Recurrent variations in wheat yields are also a source of considerable instability in wheat prices. However, on a relatively free market, such price movements are to a certain extent income equilibrating from the producer's viewpoint. In one specialized wheat producing region it was found that "during the interwar years there appears to have been a tendency within the two periods of similar economic activity and access to foreign markets for prices to compensate yield variability in farm price fluctuation and result in relatively stable gross values of marketable production."\(^{16}\) In some years however, the deviations from this tendency were extreme, so the relationship is imperfect. Because of the inelasticity of demand, producer incomes tend to rise above the average in short crop periods and fall below that level in bumper crop periods. And if, as mentioned above, the agreement tends to increase the inelasticity of demand, the compensatory action of production changes on incomes is made more

imperfect.

In fact, it would seem possible that the influence of the agreement on the market could make the price and income fluctuations due to production changes even more drastic. Owing to fairly stable consumption of wheat, variations in world production will be to a large degree absorbed by the international market. Thus, a small increase of only five percent in world production may make as much as a 20 percent increase in the amount of wheat entering trade, making price variations disproportionate to variations in total production.\(^{165/}\)

The International Wheat Agreement places a large part of the world trade in wheat under guaranteed quotas and the size of the free market left to absorb the recurrent variations in production becomes greatly diminished. While a small increase in world production of wheat may add, say 20 percent, to the amount entering world trade, this percent becomes much larger when it must all be absorbed by the small free market. It would thus seem that the free market could easily be flooded or starved and the result would be greater price instability than without the agreement. In the three years the agreement has been operating there has been little opportunity to ascertain the effect of changing supplies on world market prices, at least in the direction of increasing the amounts available, for the postwar period has been one of scarcity of wheat.

To introduce stability of prices and incomes into a market characterized by shortages has been one of the problems of the wheat agreement. The problem has been intensified by the fact that the severe shortages have been accompanied by, and no doubt in part caused by, a period of economic prosperity and relatively full employment throughout the wheat trading area. Under relatively free market conditions, the automatic effect of the price system would be to induce consumers to economize somewhat on the use of high priced wheat and to encourage producers to increase their output in order to bring about an adjustment to an average "equilibrium" level again. The wheat agreement attempts to moderate the rise in prices, but at the same time leave sufficient of the market free to enable exporting countries to appropriate at least part of the "quasi-rent" as an inducement towards increased supplies. It has been shown in the previous analysis that under these conditions the price of wheat in the free market is likely higher as a result of the agreement than it would be otherwise. However, under the present proportional division between agreement wheat and non-agreement sales and purchases for most member nations, the average price received by exporting countries and paid by importing countries is lower than it would be in the absence of the agreement. There would thus be less tendency on the part of importing countries to economize on wheat consumption and on the part of producing countries to increase supplies than if market prices applied to all wheat trade, assuming that gains and losses under the agreement are passed on to consumers and producers of wheat.
This tendency would be increased in areas where alternative forms of production existed that were not similarly controlled. This competition of enterprises providing higher opportunity returns has been very apparent in Australia and will be considered more fully in a later section. Instead of assisting the self-regulating forces of the price system in bringing about a more rapid adjustment of wheat supplies to demand, the wheat agreement would tend to prolong the conditions of scarcity. In some cases, the "disincentive" effect on producers will probably be increased through an exaggerated impression of their disadvantageous position under the agreement, an impression derived from a disposition to regard free market prices as the true price and the agreement price as artificial. Since under conditions of scarcity, the market price would likely be unduly high with the agreement in force, such an assumption would be unwarranted.

The Wheat Agreement would appear to add little or nothing to the stability of the free market price of wheat. But with the extent of the free market diminishing in size since the inception of the agreement, the market price loses some of its significance and the average price of wheat seems a better guide to price stability in the market as a whole. During the first two years of the agreement, the average price of wheat showed a relatively small amount of fluctuation. In comparison, most other primary commodities experienced very wide price changes particularly after the Korean War outbreak in June, 1950 (Figure XI-2). Price increases of 100 percent were not unusual
and the prices of some commodities increased several hundred percent. The relatively stable prices for wheat contributed significantly toward safeguarding the budgetary positions of importing countries. "If wheat had increased in price as rubber or even wool, few importing countries would have escaped a budgetary crisis and the need to impose controls on trade and consumption." The guaranteed prices under the agreement thus definitely contributed to a stable average price of wheat to importing countries, particularly those who could obtain a major part of their import needs under the agreement. For exporting countries, however, the stable price has not had such favorable results. Countries exporting wheat have, at the same time, been importers of many of the other primary products. The fact that the average price of wheat has remained relatively stable has resulted in adverse terms of trade to wheat exporting areas. And while it is possible that stability has been added to the income segment which these areas derive from wheat, real income has been affected adversely by leaving the expenditures on other internationally traded products subject to the "bullish" market.

The validity of much of the analysis relating to the effect of the agreement on producers' incomes and consumers' expenditures is dependent on the degree to which these effects are allowed to be transmitted to producers and consumers, that is, upon the market control measures instituted by each of the signatory countries. In some

countries the regulations are designed to ensure that the provisions of the agreement can be met, while in others the agreement operates within supplementary regulations previously developed for other purposes. But in almost every signatory nation some form of government control exists which directly affects wheat agreement transactions.

Figure XI-1

RELATIVE RANGE OF MONTHLY AVERAGE PRICES FOR WHEAT AND OTHER SELECTED COMMODITIES, JULY 1949 - JUNE 1951

Source: U.S.D.A., Foreign Agriculture, October 1951, p. 209
In the United States, the agreement has no direct effect on producers' incomes under present conditions. Growers receive either the support price or market price, both of which have been higher than the price the wheat is sold for under the terms of the agreement. The differential is made up by a subsidy from the United States Treasury. The fact that the agreement provides a means of maintaining a two-price system for United States wheat undoubtedly does have indirect effects on producer returns. By permitting sales at lower than domestic prices that might otherwise not have taken place, to nations short of dollars and facing balance of payments difficulties, considerable downward pressure on domestic prices that would have resulted from large stock accumulation has been relieved. But considered in such a light, the agreement actually constitutes a means of price support rather than one of price stabilization. Indirectly, part of the subsidy constitutes an income transfer from non-wheat producers to producers that would not have existed in the absence of the agreement, thus lowering the real income of consumers in the United States. It would not appear then that the wheat agreement gives much economic benefit to United States consumers nor directly contributes to the stabilization of producer incomes.

Under the present wheat marketing plans in both Canada and Australia, the agreement will affect the prices received by producers and reduce a considerable amount of the uncertainty in the short run. In Canada with all wheat being handled by the government Wheat Board, the price the farmer eventually receives is a pooled price, a composite
of both agreement and higher priced non-agreement sales. The present guaranteed minimum price is $1.40 for the 1952-1953 crop year. Additional payments will be made during the crop year where sales at higher prices make it possible. Under such a plan, the agreement does contribute to a measure of price stability, for while holding the average price received by producers somewhat lower than it would otherwise be during periods of scarcity, during an agricultural depression the agreement would contribute to their obtaining a somewhat higher price than otherwise. The direct influence of the agreement on the prices received by Canadian producers, however, is dependent on the fact that the guaranteed minimum initial price of the Wheat Board is lower than the maximum agreement price, the price at which agreement wheat has been selling. It is debatable whether such a situation would continue to exist during a decline in the demand for wheat of such proportions that the agreement price fell to its minimum. Unlike the situation in the United States, the producers themselves have been implicitly bearing the cost of the subsidy during the period of high prices and there would likely be strong opposition to lowering the guaranteed price below the agreement minimum. Canadian wheat going into domestic consumption channels is sold at the wheat agreement price. The "free market" price is thus not a part of the average price paid by domestic consumers, so they are assured of a greater measure of stability in their expenditures for wheat over the course of the agreement.
All wheat marketing in Australia is under the government Wheat Board, which administers the Stabilization Plan. Producers are guaranteed a minimum price based on cost of production for all wheat delivered for sale in Australia and up to 100 million bushels for export. The basic price has been 69.7 cents a bushel with increases each year to cover rising cost of production. In the 1951-1952 crop year, the price of $1.12 per bushel was still below even the Wheat Agreement minimum. In addition to the guaranteed price, producers receive a supplementary payment from profits accruing from exports. This pooling arrangement is similar to the Canadian plan except that an export tax is charged of 50 percent of the difference between the export price and the guaranteed price to the growers, the tax not to exceed 24 cents (2s. 2d.) per bushel. Thus, only the profits in excess of the export tax are pooled. The stabilization fund is to be used to meet the guaranteed price if export prices fall below that level. Wheat for the domestic market is sold at the guaranteed price of the Wheat Board. The average price received by producers is thus a composite of three prices - the "free market" price, the wheat agreement price, and the domestic or Wheat Board minimum price. As in Canada, therefore, the wheat agreement does help to mitigate wide fluctuations in producer incomes by lowering the average price below what it would otherwise be during high price periods and contributing to a higher average price during a drastic wheat market slump. Since the support price guaranteed by the Wheat Board has been below the wheat agreement minimum, the agreement sales would have a greater price raising
effect during a market slump than in Canada where the agreement likely would not affect producer returns since the support price is above the agreement minimum. Consumers in Australia are assured of some stability of expenditure by virtue of the set government price for wheat entering domestic channels.

In all three of the major exporting countries, signatory to the agreement, some form of price support or stabilization measure was in effect prior to their joining the International Wheat Agreement. The assured markets of the agreement thus serve as a sort of underwriting device which was fitted in to existing legislation in different ways in the three countries. In the United States the agreement has little or no direct effect on prices producers receive or consumers of wheat pay, due to price support legislation which supercedes it. In Canada and Australia the agreement does have a dampening effect on producers' incomes and prices during a period of scarcity, but under present legislation it is only in Australia that a price raising effect would be obtained when the price of non-agreement wheat falls below the contract minimum. Consumers of wheat in Canada are treated the same in regard to price as importers under the Agreement, but Australian consumers are granted to the lower government support price. While the price benefits accorded to consumers in the exporting countries varies, it is not due to the International Wheat Agreement, but rather to the national stabilization programs.

Domestic grain market control measures exist to an equally large extent in the importing countries. At the time the agreement was
passed, most of the West European countries had legislation requiring mandatory delivery of all or part of the grain supplies to government authorities\(^{167}\) and in most cases it is still in effect. All wheat imports into the United Kingdom are handled through the British Ministry of Food. In India, the second largest importer at present, all wheat passes through government channels. Due to the varying degree of controls imposed on markets, price movements have not been uniform in all countries.\(^{168}\) Nor, in general, have lower prices of wheat under the agreement resulted in lowered prices to foreign consumers. Where domestic prices have been higher than those of imported grain, importers have obtained a profit or in cases of state purchasing, the profits were absorbed by the government. In some cases the profits have been used by the government to subsidize lower prices on other commodities such as fats and oils which were purchased at higher world prices.\(^{169}\) So while the Wheat Agreement contributes to the stability of expenditures on wheat of the importing countries, in many cases it has not been able to make a similar contribution to the expenditures of the ultimate consumers in those countries. Under conditions where the price of wheat purchased outside the agreement fell below the agreement minimum, these same importing countries might find it politically expedient not to charge consumers the higher agreement price, but rather to subsidize imports.

\(^{168}\) F.A.O. Commodity Reports, Grain Bulletin, December 1, 1951.  
\(^{169}\) Northwestern Miller, September 23, 1952, p. 9.
The funds for such subsidization might come from the profits obtained in the previous period of scarcity or from general taxation. In either case the stabilizing effect of the agreement on consumers' expenditures would be at least partially nullified as it has tended to be in the recent period of scarcity.

Therefore, it seems that while the International Wheat Agreement could offer a means whereby consumers could obtain wheat at reasonable and stable prices under the market controls in effect in many countries this has not taken place. And for some time to come it seems unlikely that such controls will diminish in number or effectiveness. This should not negate the agreement, however, since most of the controls would be in effect even in the absence of the agreement, and the latter has in many cases undoubtedly made the results of such controls less insidious and enabled them to be legally contravened without promoting international ill will.

During the first three years of the agreement, due to the relative scarcity of wheat, the section relating to the fact that member countries shall not operate their domestic price policies so as to impede the free movement of prices between the maximum price and the minimum price has not been put to the test. As supplies increase it will be interesting to see how the domestic policies are able to meet this requirement, particularly in the exporting countries, all of which have some form of price support plan.
Economic Costs of the Agreement

The postwar international wheat market and many of the domestic markets have been characterized by multiple price arrangements, and these continued after the International Wheat Agreement came into operation. If it is assumed that since some wheat was sold at a higher price, that sold at the lower price could also have been sold for a greater amount, it follows that monetary losses were suffered on the lower priced wheat. Such has been the case in all of the three major exporting countries.

Wheat exported from the United States under the I.W.A. quota has been subsidized to the extent of 55 cents a bushel during the 1949-1950 crop year and 68 cents a bushel in 1950-1951. The total subsidy bill has reached about $182 million a year, with the possibility of it going higher if the United States support price rises or the price of agreement wheat falls below the maximum. This subsidy is paid by the United States Treasury under Public Law 421, 81st Congress, which authorizes wheat to be made available under the I.W.A. through the Commodity Credit Corporation. This cost thus becomes a burden on the United States tax payer. Similarly, in Canada wheat sold under the agreement contract has been sold at a lower price than non-agreement wheat, though the difference has not been as great as the United States subsidy. In the 1950-1951 crop year the difference

amounted to 15 cents a bushel for high grade wheat, with the low grade wheat selling at the same price under the agreement as it did outside it. In Australia too, some wheat has been sold abroad at higher "free-market" prices.

In Canada and Australia the monetary loss has been borne directly by the producers by foregoing the additional income, rather than by the general tax payer as in the United States. The money cost is thus more apparent in the latter country where it is paid out as a specific amount. In Canada and Australia the money cost cannot be so accurately calculated. The amount of wheat sold abroad at free market prices has been a minor portion of total wheat exports of these two countries, and had all the wheat been put on the competitive market, the "free" price, as was mentioned in an earlier section, would likely have been less and the amount of wheat taken by importing countries would have been smaller also. The two-price system necessitated by the Wheat Agreement is also intermingled with a policy to provide domestic supplies at lower than market prices so it becomes difficult to determine monetary losses attributable to the agreement alone or to weigh the validity of the bitter arguments for and against continuation of the losses.

As long as world demand and United States support price remains high, shipments under the I.W.A. involve reduced income to the producers or government subsidization. But the question remains as to

whether the cost should be borne directly by the producer as in Australia and Canada or by the taxpayers as a whole as in the United States. Omitting the income reduction related to domestic sales at reduced prices in Canada and Australia, at least part of the cost of sales abroad at lower prices should be considered an insurance premium for reduction of uncertainty through a guaranteed market. As such it should be borne by the insured producers, and the question then becomes one of whether the premiums have been too high. They could have been narrowed by raising the wheat agreement price, but it would seem reasonable that guarantees by importing countries to buy large quantities over a term of years should be matched by maximum price arrangements that give some recompense for fixing purchases in advance. Since the minimum price guaranteed by the importers for an assured supply is apparently above Canada's and Australia's cost of production, \[172/\] the price agreed upon would seem to have been considered satisfactory by both sides at the time. A previously unexpected increase in the costs occurred however, due to the rise in prices during the second year and to the increase in export quotas.

But to give full attention to the money costs calculated on the basis of the price differential is unrealistic and ignores some important benefits and also some alternative cost elements. The intangible benefits of price security have already been mentioned. Security of supplies and markets helps to reduce high cost home production and bilateral agreements, and it is highly probable that

without subsidized exports the dollar short importing countries might not have been such secure markets. The additional price certainty may make a domestic pooling scheme or price support plan more secure through making more definite planning possible and setting a "stop-loss" floor in the face of falling prices.

Under present world conditions it seems probable that the costs would show up in the budget in an equivalent form if not through subsidized exports, particularly in the United States. In Canada or Australia if the costs took another form, the loss would be suffered by the general tax payer rather than the producer specifically. In any event, with most of the importing countries faced with the dilemma of using scarce dollars for food or defense requirements, any increase in the price of wheat would leave fewer dollars available for guns. And though such an increase might reduce the monetary losses on wheat shipped under the international agreement it would probably mean a larger outlay for European rearmament by the United States and Canada particularly, or a reduction in the amount of wheat taken by the importing countries. Another factor relating to foreign aid is that nearly two-thirds of the subsidized wheat shipped from the United States went to Marshall Plan countries or countries getting other forms of aid.173/ This was taken into consideration in the E.C.A. budget and the cost of subsidizing exports was thus directly offset by a reduction in the E.C.A. appropriation. The subsidy paid

out or the income relinquished may thus be considered a contribution to foreign aid.

But viewed in this light the question is again raised as to the purpose and incidence of the subsidy. If it is considered an insurance premium it might well be borne by the wheat producers. But if it is considered a contribution to foreign aid it would seem more appropriate that the cost be borne by the national treasury as in the United States rather than by the producers as in Canada and Australia.

The treatment of the producing countries under the agreement does appear inequitable relative to the importing countries when viewed strictly in terms of monetary losses and gains, and much criticism has been directed towards equalizing the benefits. But it has been said that "nothing is more inequitable than the equal treatment of unequals." Neither the producers of Canada or Australia have suffered absolute losses by virtue of the agreement, but rather what might be termed opportunity losses. On the other hand, the alternative losses to the importing countries had they been required to buy their total supply of wheat on the free market could have been of much greater significance through upsets in the balance of payments or internal cost structure, the significance depending on the role of imported wheat in the total economy of the importing country. Many of the signatory importers entered the agreement already faced with dollar deficits which further extensive purchases of high priced wheat from North America would have exaggerated. The importing nations for the most part were thus in a more vulnerable position than the producing
countries, and it seems probable that the opportunity losses which the latter countries have suffered have been smaller than what the alternative losses to many importing countries would have been in the absence of the agreement.

When viewed from the standpoint of a country with a domestic price support program such as the United States, the arguments in favor of the agreement are rather persuasive, despite the cost to the Treasury. The wheat acquired in support operations is carried on the books at the cost of acquiring it. Since approximately one-third of United States wheat production is exported, to the extent that importing countries would have reduced their purchases without the agreement, stocks would have accumulated with a possible depressing effect on prices. Greater supplies would be purchased in support operations, postponing the day when they must be disposed of. In the past, disposal has taken place at a substantial cost relative to the original cost of acquiring the wheat. In addition, in the face of mounting stocks, under present legislation it would become necessary to impose acreage allotments and marketing quotas, with which the experience in the past has been a costly one. Table XI-1 shows the cost of these payments for wheat from 1933 to 1943, which totaled $1,034 million. Payments of such magnitude combined with losses which might accrue from stock disposal could more than equal export subsidy payments under the I.W.A. In addition, if surplus stocks of wheat were considered suitable for feed use it is conceivable that marketing quotas and allotments might be extended to other feed grains as a result.
### Table XI-1

Government Payments on Wheat, United States, 1933-1943

(Millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Payments for Adjustment or Conservation and Parity</th>
<th>Payments or Loss on Wheat and Flour Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>$93,806</td>
<td>---</td>
</tr>
<tr>
<td>1934</td>
<td>105,554</td>
<td>$6,299</td>
</tr>
<tr>
<td>1935</td>
<td>114,988</td>
<td>159</td>
</tr>
<tr>
<td>1936</td>
<td>43,389</td>
<td>232</td>
</tr>
<tr>
<td>1937</td>
<td>---</td>
<td>78</td>
</tr>
<tr>
<td>1938</td>
<td>50,126</td>
<td>25,948</td>
</tr>
<tr>
<td>1939</td>
<td>137,555</td>
<td>7,729</td>
</tr>
<tr>
<td>1940</td>
<td>103,638</td>
<td>4,381</td>
</tr>
<tr>
<td>1941</td>
<td>107,353</td>
<td>4,213</td>
</tr>
<tr>
<td>1942</td>
<td>137,183</td>
<td>---</td>
</tr>
<tr>
<td>1943</td>
<td>140,449</td>
<td>---</td>
</tr>
</tbody>
</table>


Thus, not only would the alternative money costs be great, but there would be considerable disutility involved in the additional nuisance of government production and marketing controls. However, this does not necessarily mean that export subsidies are the preferred method of wheat disposal for undoubtedly a cogent argument could be presented for subsidizing domestic consumption instead of consumption abroad.

In the event that the agreement would be discontinued some reduction in costs might be effected through a change in concept of what constitutes a normal stock supply. It was previously mentioned that a recent study had stated a reserve level of 450-500 million bushels of wheat would be necessary to provide adequate protection, but seldom has this level been attained. If thinking became reoriented
in terms of reserves of this size, fears of mounting stocks in any particular year and the resultant effect on the market would be diminished. There would thus be less tendency to dispose of stocks at less than book value as has been the case in past years when carryovers, though at a much lower level, were considered to be "rising surpluses."

A further consideration in evaluating the cost of the wheat export program to the producing countries, but one which cannot be precisely assessed moneywise, is the contribution of the agreement as an instrument of foreign policy. In fact, in the United States the Bureau of the Budget has suggested that the subsidy be charged to the State Department rather than the Department of Agriculture.\footnote{Northwestern Miller, April 1, 1952, p. 9.} There can be no doubt that the availability of "daily bread" is an important factor contributing to world peace and the wheat agreement has helped considerably in making bread available. It has tied Western European countries more firmly to the western powers as sources of supply, whereas without the agreement they may have turned eastward to secure non-dollar wheat. Considered in the light of the strategic interests of the United States then, the cost of the export program is relatively small compared to the $55 billion defense budget.

In summary then, it may be stated that unlike other commodity agreements in the past, the International Wheat Agreement has not resulted in costs to consumers through retaining high cost producers.
or enforcing less than capacity production. But it is unrealistic to view the costs which have occurred only in terms of the amount of subsidization that has taken place. In return for the expenditure, some insurance against the effects of price fluctuation has been obtained and at least part of the cost has been offset by reduced foreign aid appropriations. And when the alternative financial outlay for acreage reduction and parity payments is considered, along with the increased dislocation in the balance of payments of the importing countries that might have occurred, and the positive contribution which the agreement has made to the foreign policy of the western nations, it becomes difficult to say that the costs of carrying on trade under the agreement have been exorbitant.
CHAPTER XII
THE EFFECT ON RESOURCE ALLOCATION

Importing Countries

The nationalistic efforts of importing countries towards increased production in the interwar period are well known, particularly those of Europe. Western Europe continues to be the largest market for internationally traded wheat and 70 percent of sales under the agreement move to this area, as well as other shipments outside the agreement. An interest in discouraging the use of resources in uneconomic wheat production in this area is thus a laudable one from the viewpoint of an expanded world wheat market. The previous desire for self-sufficiency was motivated by unsettled world conditions resulting in employment problems, balance of payments difficulties and strategic anxieties. Such being the case, there is little reason to expect European countries to encourage greatly reduced production under conditions as they are today unless the agreement can help to reduce the effect of some of the disruptive factors.

Actually, since World War II the wheat acreage of Western Europe has remained below the 1935-1939 average of 53.5 million acres, and appears from Table XII-1 to have settled down at a figure between 2.5 million and 3.5 million acres below that amount. This decreased acreage has occurred despite the fact that the population has increased considerably and bread is still relatively scarce in many areas.
Table XII-1
Grain Acreages, Western Europe, Specified Years
(1,000 acres)

<table>
<thead>
<tr>
<th></th>
<th>1935-1939</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>53,520</td>
<td>50,730</td>
<td>50,440</td>
<td>50,980</td>
</tr>
<tr>
<td>Oats</td>
<td>24,980</td>
<td>22,030</td>
<td>21,480</td>
<td>21,140</td>
</tr>
<tr>
<td>Barley</td>
<td>14,090</td>
<td>14,940</td>
<td>15,560</td>
<td>16,560</td>
</tr>
</tbody>
</table>


At the same time, feed grain acreages have increased somewhat, particularly barley. The shift to more feed grains undoubtedly constitutes a more efficient use of land resources but is surprising in view of the fact that most of the imported wheat must be dollar wheat and the importing countries continue to be short of dollars.

Influence of Prices

The extent to which the wheat agreement is responsible for averting or at least postponing an intensive self-sufficiency drive is not clear cut. The advocates of the agreement feel that by assuring supplies of wheat at equitable and stable prices, importing countries are discouraged from building up uneconomic production. The implication is that since wheat import requirements are relatively inflexible, when short supplies result in high prices, domestic production and utilization would be encouraged by the use of quotas, tariffs, subsidies, milling quotas, higher extraction rates, etc. The assurance
of an ample supply of wheat at prices lower than could otherwise be obtained, and lower than domestic prices, no doubt was an important factor in permitting the importing countries to concentrate more effort in growing feed grains. There is danger, however, in placing too much importance in a low supply-price as a factor. The drive for self-sufficiency of the wheat importing countries reached its height in the four years after the 1928 crop despite the fact that at this time wheat prices in the exporting countries were at a very low level, and wheat could have been imported much more cheaply than it could be produced. In the period immediately after World War II when it was desired to encourage European production, domestic prices were held below those in the main exporting countries even though, by removing the low fixed prices, considerable incentive could have been given to raise wheat acreage (Table XII-2). It was undoubtedly more politically expedient to maintain low bread prices than try to stimulate production quickly by raising prices at home. And even though additional wheat had to be obtained from abroad at higher prices, much of it was in the form of foreign aid gifts, making its higher price become less relevant.

Thus, even though wheat was available at low prices, as during the early 1930's, there was a hesitancy on the part of importing countries to decrease production and increase imports. Neither did high postwar prices for imported wheat result, as might be expected, in raising the domestic price and greatly encouraging home production.
### Table XII-2

Wheat Prices in Selected Countries, 1946-1948

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>No. 1 Northern, Ft. Wm. plus frt. to W. Europe</td>
<td>$2.70 $3.07 $2.69</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>No. 2 Hard Winter, Gulf Port plus frt. to W. Europe</td>
<td>2.61 3.07 2.72</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>Fixed export price plus frt. to W. Europe</td>
<td>2.65 3.46 3.01</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Importing Country</th>
<th>Quotation</th>
<th>Price Received by Domestic Producers of Wheat</th>
<th>1946-47</th>
<th>1947-48</th>
<th>1948-49</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Mandatory delivery by producer at fixed price</td>
<td>$1.59 $1.59 $1.98</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>&quot;</td>
<td>2.37 2.37 2.69</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eire</td>
<td>&quot;</td>
<td>2.11 2.06 2.14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>&quot;</td>
<td>2.58 2.58 3.02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>&quot;</td>
<td>1.96 2.12 2.23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>&quot;</td>
<td>1.83 2.24 2.67</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>&quot;</td>
<td>2.17 4.20 2.34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France*</td>
<td>&quot;</td>
<td>2.70 4.80 2.96</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy*</td>
<td>&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Prices quoted at official exchange rates.


**Influence of an Assured Supply**

Due to the fact that the foreign aid program has been operating concurrently with the International Wheat Agreement it is difficult to separate the influence of the agreement alone on resource allocation. Since the war, 55 percent of total United States exports of
wheat have been financed by the United States Government, as well as a considerable amount of Canadian exports. As long as desperately needed wheat could be obtained in this manner there was less incentive to grow it themselves. The Anglo-Canadian Wheat Agreement undertook to supply wheat to the United Kingdom at reasonable prices, but trade under this agreement would have continued only with great difficulty had it not been for United States government aid. The lower prices under the agreement would make it possible to secure more wheat for a given amount of financial aid if the appropriations were not reduced proportionately. But it is doubtful if importing countries would have depended so heavily on imported wheat for their supplies had not the United States grants made it possible.

From a longer range view the International Wheat Agreement would seem to have a greater effect on discouraging uneconomic production than grants-in-aid. The latter are at best a stop-gap measure and depend on year to year appropriations which may cease at any time. On the other hand, the wheat agreement provides an assured supply for at least four years which would permit more efficient planning of domestic production goals. The first real test of the agreement will come during the present year and those following, if it is renewed. During the 1952-53 crop year, Mutual Security Administration funds cannot be used to purchase wheat sold under the agreement. The lower price obtainable through the agreement will thus assume greater importance.

unless the "free market" price drops very considerably. If the importing countries continue to be short of dollars with which to purchase wheat they may find that their dollar supply can be extended by using available dollars to meet agreement commitments, switch some feed grain acreage to wheat production, and use M.S.A. dollars for feed grain purchases, or attempt to get more feed grains from non-dollar sources. If agreement transactions continue to take place near the maximum price, wheat purchases from abroad can be reduced considerably, since they are only obligatory under the agreement at the minimum price. But if the wheat agreement is an important factor in itself in preventing uneconomic expansion of wheat acreage rather than just a "bonus" added to an already influential foreign aid program, the acreage may be expected to remain the same.

One other factor related to the wheat agreement may prove important. It was expected when the agreement was instituted that during its life surpluses would develop and prices fall. But since prices have continued to remain about the maximum, producers in exporting countries have undoubtedly foregone considerable money income. But they have continued to fulfill their obligations and have exhibited their reliability as suppliers. Such action should increase the faith of the importers in producing countries and overcome some of the uneasiness that prompted them to look with favor on enlarged domestic production in the past.
In Exporting Countries

The importing countries, by signing the agreement, in effect became dependent on the member exporters to the extent of their guaranteed purchases at least. It is necessary then to look at the effect on the resource use in the producing countries and whether those resources in wheat production are sufficient to maintain the necessary supply.

Possibility of Meeting Wheat Agreement Commitment

In the five years prior to World War II the three main exporting nations, United States, Canada and Australia exported about 334 million bushels annually (Table VIII-3). During the crop year 1951-1952 these same three countries were assured of a market under the agreement for 581 million bushels, a net gain in their exports of 247 million bushels through agreement sales alone. In addition, the three countries exported an average of another 181 million bushels annually to make the annual average of total exports amount to 762 million bushels during the first three years of the agreement. The agreement quota itself represented a decline from prewar exports for Australia, but an enormous increase for the United States and a considerable increase for Canada.

Some indication of the possibilities of meeting a commitment as large as that under the Agreement over a long run period may be seen from Table XII-3. Assuming present domestic consumption levels and subtracting these from annual production to give the supply available
for export, in all three countries there were as many or more years when the agreement commitment alone could not have been met on a year to year basis. For Canada and the United States, requirements could be met by acreage and yield levels that have prevailed since the agreement began. Some of the increased yield over prewar is due to technological advance, but much is due to successive years of good weather and there is no assurance, of course, that it will continue. If yields of 1933-1937 are experienced again it is likely that production would not meet needs even at current acreages. For three successive years, 1934-1936, the United States was a net importer of wheat and during this period the acreage seeded averaged 69.2 million acres, almost equal to that seeded in 1950. In 1936, 1937, and 1938 the seeded acreage was higher than that of the postwar period but in none of these years would United States production have been high enough to meet wheat agreement obligations at present domestic consumption levels. And with such years coming successively it would be unlikely that the rigid contractual obligations for wheat could be met from any normal stock supply. A recent study has shown that a stock level of 450 to 500 million bushels are necessary to provide working stocks and to meet specified yield contingencies.176/ But only in 1942 and 1943 were stocks of wheat above this level. A similar situation exists for Canada. But whereas the United States would have been unable to meet its quota in only one year in the 12 years

since 1940, there were six years in which Canada did not produce enough wheat to have met the guaranteed supply if domestic requirements were at the present level (Table XII-3).

In Australia the acreage devoted to wheat has been undergoing a definite downward trend with production in 1951-1952 insufficient to permit meeting the Wheat Agreement quota, and the prospects appear about the same for 1952-1953. Australia's quota is below the amount of her average prewar exports, but domestic consumption has risen greatly. In the long run, this fact coupled with decreased production will probably necessitate a lower quota in any renewed agreement.

Looking to the future it would seem that a supply commitment as large as that entered into by the United States, Canada and Australia under the Wheat Agreement will require the fullest use of land resources to meet additional demand for wheat above that to be supplied in the agreement. Thus, instead of the burdensome surpluses that were experienced in the interwar period and were contemplated in the postwar period, it appears that even over a few years, if the resources used in wheat production in the importing regions remain about the same as now, supplies will be little more than adequate to meet the demand.

Relationship to Conservation Policy

This is not to say that the extended use of resources in wheat production is the optimum. In fact, there is evidence that wheat acreage may be considerably over-extended in terms of certain aims. This applies mainly to the wheat producing areas of the United States
<table>
<thead>
<tr>
<th>Crop Year</th>
<th>United States Production</th>
<th>Canada Production</th>
<th>Australia Production</th>
<th>Production Less Present Domestic Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million Bushels</td>
<td>Million Bushels</td>
<td>Million Bushels</td>
<td>Million Bushels</td>
</tr>
<tr>
<td>1925</td>
<td>669</td>
<td>395</td>
<td>115</td>
<td>-21</td>
</tr>
<tr>
<td>1926</td>
<td>832</td>
<td>407</td>
<td>161</td>
<td>142</td>
</tr>
<tr>
<td>1927</td>
<td>875</td>
<td>480</td>
<td>118</td>
<td>185</td>
</tr>
<tr>
<td>1928</td>
<td>914</td>
<td>567</td>
<td>160</td>
<td>224</td>
</tr>
<tr>
<td>1929</td>
<td>824</td>
<td>302</td>
<td>127</td>
<td>134</td>
</tr>
<tr>
<td>1930</td>
<td>887</td>
<td>421</td>
<td>214</td>
<td>197</td>
</tr>
<tr>
<td>1931</td>
<td>942</td>
<td>321</td>
<td>191</td>
<td>252</td>
</tr>
<tr>
<td>1932</td>
<td>756</td>
<td>413</td>
<td>214</td>
<td>66</td>
</tr>
<tr>
<td>1933</td>
<td>552</td>
<td>282</td>
<td>177</td>
<td>-138</td>
</tr>
<tr>
<td>1934</td>
<td>526</td>
<td>276</td>
<td>133</td>
<td>-164</td>
</tr>
<tr>
<td>1935</td>
<td>628</td>
<td>282</td>
<td>144</td>
<td>-62</td>
</tr>
<tr>
<td>1936</td>
<td>630</td>
<td>219</td>
<td>151</td>
<td>-60</td>
</tr>
<tr>
<td>1937</td>
<td>874</td>
<td>180</td>
<td>187</td>
<td>184</td>
</tr>
<tr>
<td>1938</td>
<td>920</td>
<td>360</td>
<td>155</td>
<td>230</td>
</tr>
<tr>
<td>1939</td>
<td>741</td>
<td>521</td>
<td>210</td>
<td>51</td>
</tr>
<tr>
<td>1940</td>
<td>815</td>
<td>540</td>
<td>82</td>
<td>125</td>
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<tr>
<td>1941</td>
<td>942</td>
<td>315</td>
<td>167</td>
<td>252</td>
</tr>
<tr>
<td>1942</td>
<td>969</td>
<td>557</td>
<td>156</td>
<td>279</td>
</tr>
<tr>
<td>1943</td>
<td>841</td>
<td>284</td>
<td>110</td>
<td>154</td>
</tr>
<tr>
<td>1944</td>
<td>1,060</td>
<td>417</td>
<td>53</td>
<td>370</td>
</tr>
<tr>
<td>1945</td>
<td>1,108</td>
<td>318</td>
<td>142</td>
<td>418</td>
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<td>1946</td>
<td>1,152</td>
<td>411</td>
<td>117</td>
<td>462</td>
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<tr>
<td>1947</td>
<td>1,359</td>
<td>342</td>
<td>220</td>
<td>669</td>
</tr>
<tr>
<td>1948</td>
<td>1,295</td>
<td>386</td>
<td>191</td>
<td>605</td>
</tr>
<tr>
<td>1949</td>
<td>1,098</td>
<td>371</td>
<td>213</td>
<td>406</td>
</tr>
<tr>
<td>1950</td>
<td>1,019</td>
<td>462</td>
<td>184</td>
<td>329</td>
</tr>
<tr>
<td>1951</td>
<td>987</td>
<td>553</td>
<td>160</td>
<td>297</td>
</tr>
<tr>
<td>1952</td>
<td>1,299</td>
<td>688</td>
<td>161</td>
<td>609</td>
</tr>
</tbody>
</table>

1/ Export commitments under the I.W.A. of 1949 are: United States, 253 million bushels; Canada, 235; Australia, 89.
4/ Domestic requirements of 70 million bushels, Agriculture Abroad, October 1952, p. 7.

rather than Canada or Australia. In the latter two countries wheat acreage has remained fairly stable over the long run and in Australia has even decreased. But for the United States the high level of land use in wheat production may not be in line with good conservation policy. Since 1947 wheat acreage has been about 78 million acres, with a low of 71 million in 1950 and a high of 83.9 million acres in 1949. However, in considering whether the resources of the United States were sufficient to meet the needs of E.C.A., agricultural authorities found that average wheat acreage for the four years following the study should not exceed 72 million acres as a maximum and that a pattern of 62-63 million acres in wheat was more in accord with conservation objectives. Continued maintenance of wheat exports from the United States at such a high level may thus conflict with the best long-run land use practices even though excess capacity in terms of "surplus" production in relation to demand may not exist.

Influence on Resource Allocation Between Farm Enterprises

A competitive but uncertain relationship exists between resources used in wheat production and those used in other farm enterprises. In the United States, the price effects of the Wheat Agreement on resource allocation between enterprises is nullified to a

178/ Hearings, Subcommittee of the Committee on Foreign Relations, United States Senate, 80th Congress, 2nd Session, May 14-17, 1948, Appendix I.
considerable extent by price support policies, and in addition much of the resources (chiefly land) is of little value in other forms of production. Nevertheless, fears have been expressed that in meeting the demands under the Wheat Agreement a feed shortage could result. These fears are not based so much on the fact that the high export demand will draw resources from feed grain production into wheat production, but rather that wheat will not be available for feed if agreement commitments must be met coincident with a short coarse grain crop. The agreement does not seem to be clear on whether exporting countries could take advantage of the escape clause by requesting a reduced quota in the event the wheat would be needed domestically for feed, even though the wheat crop itself was of good size. However, undue concern in this direction would seem to be somewhat unnecessary since the price relationship between wheat and corn or barley has seldom been such in the United States as to induce the use of wheat for feed. Only in 1943 was wheat fed to livestock to any extent.

The Wheat Agreement does not appear to have affected any significant shifts in resources between crops in Canada. Wheat acreage has remained fairly consistent. While barley acreage has increased, the acreage seeded to oats has diminished in recent years. For the 1952 harvest, both wheat and feed grain output reached record levels.  

179/ See testimony of W.C. Berger, President of American Feed Manufacturers Association before the Foreign Relations Committee, United States Senate, 80th Congress, 2nd Session, May, 1948.
Since Canada is on an export basis for both barley and oats it seems highly unlikely that heavy demand for wheat under the agreement will endanger domestic feed supplies.

In Australia, significant shifts from wheat to other crops and enterprises have taken place in the postwar period. Wheat acreage declined in the 1951-1952 season to the lowest for any peacetime year since 1925-1926 and was about 20 percent less than the average sowings for the five years ended 1938-1939. The acreages of oats and barley have increased considerably the barley acreage being almost double that of prewar. 181/ "The reasons advanced for the drop in wheat acreage are related to shortages of labor, farm machinery and fertilizers, to high costs of transportation and to a relatively low level of returns obtained from wheat growing. Wheat producers in Australia prefer to produce coarse grains, corn, meat and wool, the prices of which are all based on export prices." 182/ The wheat growers complain that the Australian Wheat Stabilization Plan operates more to protect the interests of wheat consumers in Australia than to promote exports. Commenting on the new price which applied from December 1, 1951, the Minister of Agriculture said, "Even with wheat for human consumption at 10 shillings a bushel and feed wheat for the pig, poultry and dairy industries at 12 shillings a bushel, Australian consumers are receiving wheat at little more than half the price which can be obtained on the free export markets, the aggregate saving being about

181/ Department of Agriculture, Ottawa, Canada, Agriculture Abroad, April 1952 and October 1952.
182/ Agriculture Abroad, October 1951, p. 6.
130 million in 1951-1952. Australian wheat growers are still making a very substantial contribution to the internal stability of the country." In thus making their contribution wheat growers have received relatively lower incomes, while at the same time alternative livestock enterprises have been able to obtain subsidized wheat for feed supplies. The reduced wheat output has resulted in most of the wheat above domestic needs being required to meet wheat agreement commitments, leaving no "free market" wheat available for sale at higher prices. The wheat producers appear to be caught in a circular situation whereby, due to the lower relative returns, less wheat is being produced, making it impossible to take advantage of the higher world prices which would have raised the income. However, the shift of resources out of wheat production cannot be attributed to the effect of the Wheat Agreement except for the fact that in satisfying the agreement little wheat was left for further exports. But if the wheat agreement price dictated the minimum as it has done in Canada, instead of a large proportion of the output being sold at a lower floor price, the relative position of the wheat grower would be improved and such a significant shift of resources may not have taken place.

The evidence would seem to indicate that the International Wheat Agreement in itself has had very little direct effect on the expansion or contraction of wheat acreage in the three major signatory exporting nations. Wheat production has been much more directly affected by the various national arrangements. This does not mean that in the absence of the agreement resource use in wheat growing would have been the same, for the nature of the market is so complex, both
economically and politically, that it is difficult to predict what would have taken place. The national arrangements which superseded the wheat agreement in directing resource use probably would have operated differently without the undergirding of the agreement, for the agreement provided a convenient way of disposing of supplies which dollar-short countries might have been unable to buy at world prices. These supplies could have proven embarrassing to a domestic price support program such as that carried on in the United States. It has been mentioned that fulfilling the rigid commitment to the member importing countries would entail continued high wheat acreage levels over the long run, and even prove inimical to optimum resource use in the United States. True as this may be, in actuality national price policies have been responsible in the United States for encouraging production through the necessity of maintaining prices at a high relationship to parity, though it is undoubtedly true that the postponed imposition of acreage allotments or marketing quotas is in part due to the needs to be met under the Wheat Agreement. If the International Wheat Agreement was in effect alone, without the influence of present national policies, wheat acreage would probably be reduced in the United States below present levels, increased in Australia, and in all likelihood remain approximately the same in Canada.
CHAPTER XIII

DEGREE OF CONFORMITY TO THE HAVANA CHARTER FOR AN INTERNATIONAL TRADE ORGANIZATION

Chapter VI, Articles 55 to 70 of the Havana Charter for an International Trade Organization (I.T.O.) 1948, prescribes certain criteria and outlines procedures to which members of the Organization will adhere in the establishment and operation of inter-governmental commodity agreements. In the case of manufactured goods, the Charter condemns the adoption of measures that operate to restrain international trade. But in the case of primary commodities, under certain circumstances, it permits the adoption, through intergovernmental agreement, of measures that may have the same effect. The Charter recognizes the futility of proposing that nations agree to abandon all efforts to assist primary producers. The question then becomes not whether governments will act, but how. If each pursues an independent policy there is little chance that multilateral trade can be restored. If all agree on a common policy, the hopes of multilateralism will revive.

Among the objectives of commodity agreements which the Havana Charter considered appropriate were: (a) adjustment between production and consumption when normal market forces bog down, (b) a framework for correcting uneconomic use of resources and manpower, (c) stabilization of prices and (d) development of natural resources, expansion of production and equitable distribution of a commodity in short supply (Article 57.)
Certain requirements are established for all commodity agreements. Initially they must be open to all members of I.T.O. on equal terms. Adequate participation must be afforded to countries having a substantial interest in the commodity as importers or consumers and fair treatment must be accorded to members who do not participate. There must be full publicity regarding the negotiation of any agreement, and periodically, regarding its operation (Article 60).

Additional principles are laid down to govern commodity control agreements, into which category the International Wheat Agreement would apparently fall. Such agreements include those which involve the regulation of prices or the regulation of output, exports, or imports, or have the purpose or might have the effect of restraining production or trade (Article 61-2). For a commodity control agreement to be instituted, one or other of two sets of conditions must be satisfied. A burdensome surplus must have developed or be expected to develop, which threatens to cause serious hardship to the producers, particularly small producers, who account for a substantial portion of the total output and this hardship cannot be prevented by normal market forces because a substantial reduction in price does not result in a significant increase in consumption or to a significant decrease in production. The second condition is that unemployment must have developed or be expected to develop to such an extent as to cause serious hardship, which cannot be prevented by normal market forces, because a reduction in price does not readily lead to a significant increase in consumption, but it does lead to a decrease in production.
and therefore in employment, and there are no alternative opportunities for the unemployed in the area (Article 62).

Such agreements should assure adequate supplies of the commodity at reasonable prices, and provision made, where possible, to expand consumption. Importers as a group should have a number of votes equal to those of the exporting countries. Production must be permitted to expand in areas where it can be carried on with the greatest economy. Programs of internal economic adjustment must be adopted to ensure all practicable progress during the life of the agreement towards solution of the commodity problem involved (Article 63).

The operation of each commodity control agreement should be governed by a Commodity Council and each participating country should have one member on the Council (Article 64). Agreements cannot be concluded or renewed for more than five years at a time (Article 65-1). Operations are to be reviewed periodically by I.T.O. When disputes arise they are first to be discussed by the Commodity Council and if not resolved, the problem is then to be referred to the Executive Board of the I.T.O. (Article 66).

The International Wheat Agreement provides that if any of the terms of that agreement are inconsistent with such requirements as the United Nations through its appropriate organs and specialized agencies may establish regarding intergovernmental commodity agreements, then the Wheat Agreement is to be amended and brought into conformity.
The Havana Charter for an I.T.O. has never been brought into effect, but since it was designed to form a sort of standard framework within which world trade might best operate, it is well to see how the International Wheat Agreement fits its provisions.

As mentioned above, the Wheat Agreement falls into the category of a commodity control agreement. As such, it should meet one of the two main conditions. The applicable one apparently would be that relating to a present or expected burdensome surplus. Such surpluses have proven troublesome under past conditions and at the time the agreement was instituted the problem was expected to recur shortly. As it has worked out, stocks of dollar wheat have been large and increasing, but agreement wheat has continued to sell at the maximum price throughout the life of the contract and "free" wheat has sold at prices above this level. In this light wheat can hardly be considered to have been in burdensome surplus, and therefore the main reason for the agreement being brought into existence has not been present.

Most of the other conditions specifically applicable to commodity control agreements seem to have been met. While some importing countries would like to have obtained more wheat under the pact, from a long term point of view the supplies assured appear to be adequate and the prices reasonable. An additional commitment by the exporting countries of 125 million bushels during the life of the agreement on top of an amount that historically could already have been considered adequate would seem to indicate little or no restrictive intentions. For the most part, production has been permitted to expand in areas
where wheat can be grown most efficiently, and none of the signatory exporting countries have direct restrictive techniques been imposed on production. At the same time, wheat production in the high cost areas of Europe has not expanded alarmingly as was the case in the past. Importers as a group are given equal voting representation on the wheat council with the exporting countries and there does not appear to have been any attempt to deny them adequate participation.

Though the agreement contains some suggestions in regard to national policies, there is nothing in it to ensure the adoption of an adjustment program by the participating countries that would solve the wheat problem and obviate the necessity for the renewal of the agreement. In fact, though the term conformed to the five-year limit, there has been hopeful expectancy of its renewal, and there are indications that many of those persons and nations involved would like to make this form of contract or something similar, a permanent means of providing a more secure method of conducting trade in wheat. The main problem which the I.T.C. Charter envisaged was that of a burdensome surplus and since this did not materialize, there would be no reason for renewal in the light of that article, unless such a surplus again appeared imminent. However, there have been other problems such as lack of purchasing power in general and dollar purchasing power in particular, related to which the agreement might prove helpful in maintaining the flow in the wheat market. Internal adjustments within the wheat economy itself could not solve this problem and still maintain the expansionist rather than the restrictive outlook.
The failure of the agreement to conform to the I.T.O. Charter in this case would thus seem to call for an amendment to the Charter rather than condemnation of the agreement, assuming that commodity agreements are valid under conditions other than the type of burdensome surpluses which the framers of the Charter appear to have had in mind. This point is discussed in greater detail later in this chapter.

The condition of free entry of all I.T.O. members cannot be judged since the Organization was not brought into being, but in any event the membership did not prove to be quite as open as might have been expected. As noted in a previous chapter, Japan and Germany sought membership near the beginning of the agreement but were refused. Germany was later granted conditional membership, and still later both countries were permitted to join. So actually neither the conditions of free entry or equal terms were provided.

In addition, it should probably be mentioned that even among the countries who were signatory to the agreement, supplies and markets have not been equally accessible as would seem to be the inherent intention of the I.T.O. Charter. Areas occupied by the United States, such as Germany and Japan, were given precedence in the allocation of available supplies from that country. During the first year of the agreement, the Anglo-Canadian Wheat Agreement continued in operation and tied up a major portion of the United Kingdom market. Canada has continued to contract annually with the United Kingdom to supply wheat under the agreement. Australia likewise contracted with New Zealand to supply her usual annual needs. Though such contracts are made at
agreement terms, they are usually made in advance of the marketing season and thus exclude any other exporter from competing in that particular market at a later date. In some of the instances it probably makes little difference from a practical point of view for the agreements are made between traditional buyers and sellers. Such is the case for Australia and New Zealand, and there is small likelihood that the North American exporters would be interested in entering this market. However, the approval of such bilateral agreements within the wheat agreement sets a precedent which makes it possible for them to be brought into wider use in the future if supplies become more plentiful or the demand by the importing nations less urgent.

While the negotiation of the agreement received some publicity it is doubtful whether it can be considered "full publicity" as stated in the Charter. Wheat Council meetings have been private and the press subsequently receives digested news releases in which little indication is given as to the nature of the debates or of the bases for the ultimate decisions. Publicity during the course of the agreement is much better, periodic releases being made as to quantities bought and sold, licensing regulations, and most of the controversial problems that arise in trade relations.

The I.T.O. Charter provided for arbitration of disagreements, but the Wheat Agreement falls down at this point since there is no higher international body such as the I.T.O. to which disputes can be carried. This problem has been recognized during the operation of the agreement and provision may be made in future to carry disputes further
than the International Wheat Council as is currently done. Possibly a body such as the International Court of Justice may prove suitable in more clearly interpreting definitions such as those referring to prices, price equivalents and carrying charges, all of which have proven controversial. The I.T.O. Charter made provision for creation of a Commodity Commission subordinate to the larger Organization. Possibly such a body could come into being without the I.T.O., not for promotion of commodity agreements but rather as a consultative organization and arbitrator of disputes relating to all such pacts.

It can be observed that for the most part the International Wheat agreement conforms to the standards set down in the proposed Charter for an International Trade Organization. There seem to be a few significant differences however. E. S. Mason, writing with previous restrictive agreements as a frame of reference states, "If the proposals were adopted and effectively administered, not only would existing controls be thoroughly revised, but restrictive provisions would pass out of existence within a decade or so after the war. Countries adhering to a commodity agreement would have to commit themselves to a definite line of action on their domestic handling of the regulated commodities."

It seems clear that no definite line of action has been taken by any of the signatory nations towards insuring the agreement will not have to be renewed. A national goal of 72 million acres has been set in the United States for the 1953 wheat crop. This above the average

183/ Mason, E. S., Controlling World Trade, p. 261
acreage for the period 1942-1951. Similarly in the other exporting countries no positive measures have been taken to reduce wheat acreage. It would appear from this that conditions of burdensome surplus have not existed, or else the wheat agreement is being used as a palliative by sanctioning export subsidies without at the same time seeking a cure. In either case, the agreement does not conform to the Charter, and justification for its existence must be found in other standards.

It may be that this divergence between the proposed Charter for I.T.O. and the agreement may be brought closer by an interpretation of what constitutes a "burdensome surplus". Ordinarily, any output, within reasonable quantitative limits, can be disposed of at some price. However, the price needed to clear the market may be lower than is considered desirable. This is true where price support measures are involved, and failure to lower the price will result in continuing surpluses. This form of surplus was highly possible, particularly in the United States, and the wheat agreement has no doubt helped to prevent this happening by providing a legal framework within which export subsidization can operate. The type of surplus which the Charter was concerned with however, would seem to be a "chronic surplus", where there is persistent employment of excess resources in wheat production with resultant low returns to producers. During the course of the agreement, demand for wheat has remained high so that

184/ Ibid., p. 196.
under the conditions that existed, the chronic surplus did not materialize. In both these possible surplus situations the implication of relatively free currency convertibility would seem to be present, the surpluses being due to too high a price or production in excess of needs.

In the postwar period, the non-convertibility of many national currencies makes it impossible to return to prewar forms of trading. Add to this the growing emphasis on North America as the major supplier under the agreement and the result is a potential burdensome surplus situation of a type which the framers of the Charter probably did not have in mind. Production has not been in excess of needs, but it has been in excess of the ability of many importing countries to find dollar exchange with which to make the purchases. To date, United States dollars supplied through foreign aid have been available to purchase North American wheat. Without this aid there is a definite possibility that trade would not have been so great and large stocks would have accumulated in producing countries. In this sense then, there was danger of a burdensome surplus and there may thus be some justification for the wheat agreement in the light of the I.T.O. Charter. The provision calling for removal of the conditions which would necessitate renewal of the agreement is still not met, however. But when the cause of a surplus is a shortage of dollar purchasing power in the importing countries, the remedial influence that could be exercised by the wheat agreement alone is definitely limited.
Possibly a more significant criterion for judging the wheat agreement within the framework of the I.T.O. may be found in Article 57 of the Charter, which gives the general objectives considered appropriate for commodity agreements. The agreement has been discussed in greater detail in terms of these objectives in earlier sections. But at this point it is well to note the contribution which the agreement has made to the objective relating to adjustment between production and consumption at a time when the wheat market would otherwise have had difficulty functioning at the same high level. Both Australia and Canada are in a more favorable competitive position in the open market relative to the United States since market prices for wheat in the latter country, being related to the statutory price level, have been higher than in the former two countries (Table XIII-1). During the first year of the agreement, Canadian wheat exported outside the I.W.A. averaged 36 cents a bushel less than United States wheat exported outside the I.W.A. Under these circumstances the United States could only hope to compete favorably abroad by some form of export subsidization, with no long run assurance to the importing countries of a dependable supply. The wheat agreement provides the institutional arrangements for continuing wheat trade abroad at a high level by legalizing the use of export subsidies without danger of the retaliation that would probably follow unilateral imposition of such subsidies. The agreement is thus consistent with a policy of maximizing the export trade in wheat, particularly that of the United States.

Table XIII-1

Wheat: Prices Per Bushel in Three Exporting Countries Friday Nearest
Mid-Month August 1949-July 1952, United States Dollars

<table>
<thead>
<tr>
<th>Month (Friday)</th>
<th>United States No. 1 Dark Northern Spring 13% Protein at Duluth 1/</th>
<th>Canada No. 2 Manitoba at Fort William 2/ 3/</th>
<th>Australia Soft Wheat 3/ 4/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. 1 Dark Northern Spring 13% Protein at Duluth 1/</td>
<td>No. 2 Manitoba at Fort William 2/ 3/</td>
<td>Australia Soft Wheat 3/ 4/</td>
</tr>
<tr>
<td>August</td>
<td>2.22</td>
<td>2.40</td>
<td>2.39</td>
</tr>
<tr>
<td>September</td>
<td>2.29</td>
<td>2.35</td>
<td>2.40</td>
</tr>
<tr>
<td>October</td>
<td>2.32</td>
<td>2.30</td>
<td>2.64</td>
</tr>
<tr>
<td>November</td>
<td>2.30</td>
<td>2.30</td>
<td>2.56</td>
</tr>
<tr>
<td>December</td>
<td>2.30</td>
<td>2.37</td>
<td>2.52</td>
</tr>
<tr>
<td>January</td>
<td>2.27</td>
<td>2.47</td>
<td>2.50</td>
</tr>
<tr>
<td>February</td>
<td>2.28</td>
<td>2.58</td>
<td>2.48</td>
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<tr>
<td>March</td>
<td>2.32</td>
<td>2.42</td>
<td>2.49</td>
</tr>
<tr>
<td>April</td>
<td>2.34</td>
<td>2.47</td>
<td>2.44</td>
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<tr>
<td>May</td>
<td>2.40</td>
<td>2.43</td>
<td>2.45</td>
</tr>
<tr>
<td>June</td>
<td>2.36</td>
<td>2.41</td>
<td>2.48</td>
</tr>
<tr>
<td>July</td>
<td>2.50</td>
<td>2.41</td>
<td>2.46</td>
</tr>
</tbody>
</table>

1/ Spot or to arrive.
2/ In store.
3/ Sales to non-contract countries. Converted to United States currency.
4/ F.O.B. ship.

Source: United States Department of Agriculture, Wheat Situation.
It also introduces an element of certainty into the prospective ex-
penditures by the importing countries of scarce dollars, and by pro-
viding wheat at a price lower than otherwise prevailed, encouraged 
continued dependence upon imports from abroad.

Even if some doubt may be expressed as to whether the wheat ag-
reement was in accord with the basic conditions of the I.T.O. relat-
ing to "burdensome surpluses" and production control, it does seem 
to be in accord with the avowed objectives of commodity agreements. 
Its existence may thus be justified by the contribution it makes to 
maintaining the flow of wheat at a high level between the important 
exporting and importing areas of the world, at a time when the gener-
al market dislocations make the alternative to some form of agreement 
appear even less desirable.
CHAPTER XIV

COMPARISON WITH SOME ALTERNATIVE DEVICES AND POSSIBILITIES OF WIDER FUTURE USE

There has been considerable divergence of opinion as to the most suitable form of stabilization scheme even among those groups comprising the strongest advocates of governmental action. A group of United Nations experts recently stated, "The International Wheat Agreement is an important example of a multilateral long-term agreement on prices and quantities. The fact that it has worked is a strong argument in favor of this type of scheme, and we are advised that similar schemes might be practicable for a considerable number of other commodities."186/ The Committee on Commodity Problems of F.A.O. in their report of November 1952 stated:

"...While realizing the potential value of multilateral intergovernmental arrangements as subsidizing aids not only for trade in agricultural products, but also for world trade generally, the Committee felt that account had to be taken of the practical difficulties encountered in the negotiation of such arrangements. Thus, while strong efforts should continue to be directed toward their conclusion in appropriate cases, the uncertainty of success of such negotiations made it seem particularly important that other possible avenues of international collaboration toward prices stabilization should be studied and actively explored both at the secretarial and at the intergovernmental level."187/

The United Nations group further stated that, "Provided fair representation is accorded to both sides, we do not wish to rule out any particular type of agreement."188/ To make a comprehensive study of

the comparative use and effects of all the various forms of inter­
governmental arrangements would be a major area for research in it­
self. The attempt will be made here only to briefly discuss and com­
pare some of the more important possible arrangements with the multi­
lateral long-term type of contract such as the Wheat Agreement and to
point out some possible improvements in the latter type that might
make its wider use more advantageous in the future.

It is possible for both importing and exporting countries, acting
unilaterally to do much towards insulating their economies from fluc­
tuations in world markets by means of marketing boards, variable taxes
and subsidies or even internal buffer stocks or other such measures
designed to stabilize internal prices or incomes. However, if world
prices diverge greatly it becomes increasingly difficult for such con­
trols, so for many of them, the advantage gained is a short run one.
In addition, many of such measures have international repercussions
which have restrictive rather than expansive effects on trade. 189/
Some national measures to control markets are essential to implement
the quantitative guarantees of the wheat agreement. But in the ab­
sence of such a multilateral agreement the likelihood of reprisals is
greater. If it is assumed that the expansion of world trade in line
with comparative advantage in production is necessary to maximize ec­
onomic well-being, arrangements arising out of international colla­
booration that would reduce the fluctuations in world markets, and so

189/ Cf., Survey of National Farm Measures for Controlling Farm Prices
in Western European Countries, Paper prepared for F.A.O. Commit­
tee on Commodity Problems, 20th Session, November 1952.
make national measures less essential, seem more in line with this goal.

Another device to which considerable attention has been given during and since World War II is the long-term bilateral contract. Such contracts have usually been closely related to government bulk purchasing. The purposes were essentially similar to those of multilateral agreements - to secure for the importing country larger food imports and to provide the contracting exporting country with a degree of security through price fixing and in addition, an assured market for the whole or a large part of its exportable supply. In mid-1952, the United Kingdom was a party to contracts with 31 countries, covering 22 commodities.\(^{190}\) Closely associated with bilateral contracts are the large intergovernmental bulk purchase deals that have been prevalent in the postwar period, particularly for military stockpiling. These contracts have some merit in comparison to multilateral agreements in that they are easier to negotiate and in times of general monetary disequilibrium and limited convertibility present less serious difficulties of a financial nature.\(^{191}\) Such agreements, moreover, can bring about an expansion in food production. This occurred in Canada after World War II when, under the incentive of contracts with the United Kingdom, production and trade increased in many farm products, notably eggs, bacon, beef, cheese and wheat. In fact, Canadian shipments under the Anglo-Canadian Wheat Agreement were consider-

\(^{190}\) World Agriculture, February 1953, p. 12.
\(^{191}\) Study of Long-Term Contracts, Prepared for F.A.O. Committee on Commodity Problems, 20th Session, November 1952.
ably larger than shipments to the United Kingdom under the International Wheat Agreement have been. But there, it seems, is one of the major drawbacks to bilateral bulk purchases, for where one country contracts for a major portion of a market, other countries probably sell less. Thus, while a bilateral contract may have expansive effects on the producing country involved, it may have quite the opposite effect on countries lying outside the agreement. The result may be a decline in total world trade rather than an expansion. Any expansion that does take place may be based not on productive efficiency but on a higher degree of currency convertibility. Such has been the case in the Anglo-Russian grain contracts of recent years, where it is believed a higher price was paid by the United Kingdom than could have been obtained from North America, because Soviet grain could be procured without dollars.

Little is known operationally as to the computability of bilateral contracts with private trade since most of them have been negotiated, and the trade conducted, by government agencies. To a nation such as the United States, devoted to a policy of maintaining or increasing the amount of trade conducted by private traders there is thus a natural reticence to enter into such contracts.

An importing country may well be able to contract for a major portion of its needs for a particular product with an individual country. But a large exporter may have to negotiate several contracts to assure as large a market for a product as under a multilateral ag-
reement. If the same thing occurred for several products, the negoti­
tiation and administration of such a series of agreements might prove just as complex as multilateral contracts. Nevertheless, assuming that some form of stabilizing control is necessary in international commodity markets, in the absence of suitable multilateral agreements, bilateral contracts will likely assume great importance as a prevalent means of marketing between nations. Under certain circumstances, such as where there is one main importing country or exporting country, or where the amount of the product traded is not large, bilateral agreements may prove more suitable than the multilateral form. In general, however, such agreements seem more likely to prove disruptive of expanding world trade and to promote a pattern of resource use not in line with maximum economic efficiency, than are multilateral agreements of the wheat agreement type.

Another device that seems to lie within the realm of possible use, even if only because it seems to have been suggested in one form or another more often than any other scheme, is an international buffer stock. Both its advantages and disadvantages relative to a multilateral agreement similar to the wheat agreement stem from the fact that it has no quantitative guarantees but instead affects the whole commercial supply. Thus, government measures now required to ensure that the limited quotas are met or adhered to would not be required. In all probability this would give greater incentive to a program of increasing the amount of trade conducted through private traders, although private traders in the United States, with early fears to the
contrary, have managed to conduct trade fairly successfully under the I.W.A.

Since the set price would apply to the entire supply instead of only part of it, a buffer stock scheme would give greater stability to balance of payments, producers' incomes and consumers' expenditures. However, a buffer stock would face much greater danger than the I.W.A. in times of continuing scarcity for its stocks would be exhausted if it tried to hold down the price on the total supply by selling. Neither would there be the added incentive to increase production that is provided by the higher price for the portion of the supply sold outside the I.W.A. Similarly, but at the other end of the economic cycle, importing countries under a buffer stock would not be able to purchase a portion of their wheat at lower cost as under the wheat agreement.

The problem of financing the scheme would be much greater than that faced by the I.W.A. This might be overcome in part by national schemes instituted by member exporting countries in consultation with the importing members, rather than by a stock held internationally. But the integration of such schemes would be greatly hampered in determining a suitable price level by differences in domestic policy relating to producer price supports. In fact, since domestic schemes to help agricultural producers seem to be an essential part of most government farm programs, and the level of support considered adequate varies greatly between countries, this would be a major area of conflict in an international buffer stock designed to affect the entire
market supply. The International Wheat Agreement reduces this conflict by sanctioning two-price systems and export subsidies, and at least managed to operate without too much censure until the price levels got too far out of line.

Some of the stress that a buffer stock would be subjected to in times of scarcity or depression could be removed by combining it with an arrangement of the wheat agreement type, where a market was assured for a part of the supply. Such a combination would tend to stabilize the price throughout the whole market. There may however, be some advantage in leaving a segment of the market free. No price written into an agreement stays fixed for all time, otherwise there would be no need to fix it. It might therefore be advantageous to have a segment outside the contracted market that would reflect, even if only roughly as in the present wheat market, the state of demand and supply conditions. If the non-agreement price remained above the range set by the contract for any considerable period of time it might indicate the direction the price should move when the agreement was renegotiated. No such indicator would be available under a well-financed buffer stock or a buffer stock combined with a multilateral bulk-purchase agreement. In addition, under conditions of excess capacity, the low non-contract prices might serve as a possible inducement to shift resources while at the same time a moderate amount of income protection is provided by the agreement.

Probably the most practical consideration operating against the use of a buffer stock relative to the I.W.A. is the fact that there have
not been sufficient supplies since the war to have set one up. Most raw commodities have been subjected to an upward pressure on their prices and to counteract this the buffer stock would have to have been set up previously in order to operate adequately.

This latter restriction would likewise operate against a scheme of the Commodity Reserve type. Too, the Commodity Reserve, being designed to reduce the dislocations that result from the cyclical fluctuation in economic activity, and operating through the purchase and sale of multiple commodity units, would not have been suitable for solving many of the postwar problems which have been of a non-cyclical nature and peculiar to particular commodity situations.

As an example, little help would be given to importing countries in regard to dollar expenditures uncertainty involved in the purchase of particular products, nor of dollar income certainty for producing areas, particularly the sterling area.

Probably the biggest difficulty of the plan would have arisen out of its all-inclusiveness. It is true that after the reserve scheme got under way its operations would be automatic. But since it would include so many products, a large diversity of interests would be represented during its negotiation. When the difficulty of trying to negotiate a price for a single commodity is observed in the International Wheat Council, it would seem that trying to reach an agreement on the base price and quantity relationships in a multiple-commodity unit would be very difficult indeed. The multilateral bulk purchase type of agreement thus has the advantage of being relatively simple compared to the Commodity Reserve.
The conflict with domestic farm programs which was mentioned for buffer stocks is equally applicable to a Commodity Reserve Plan. Both these plans would involve relinquishing sovereignty in the particular commodity market to an international body. Farm prices are a major political issue in most countries of the world, and particularly where the commodity interests are strong, such as for wheat and cotton in the United States or wheat in Canada, the likelihood of handing over significant control of the market to a non-domestic institution would be politically distasteful. A multilateral bulk purchase agreement can operate concurrently with domestic farm programs and can at least give the illusion that control of the market still rests largely in domestic hands and would thus be more acceptable to legislatures.

It is not known whether the Commodity Reserve proponents would have envisaged operations during the rapid price rise following June 1950 or not. With adequate stocks on hand, such a scheme could have done much to curb the inflationary rise in the general raw commodity price level while agreements for individual commodities would have been prejudicially selective in their effects as was the case with the I.W.A. But with the limitations which Bennett and Associates place on the timing of buying and selling operations of the Commodity Reserve System it is doubtful whether sales from stocks would have been made at that time since the price rise could hardly be considered cyclical in origin.
It would appear that multilateral agreements of a type similar to the I.W.A. have many distinct advantages over the other most likely stabilization schemes. Such agreements are not without many problems, however, and considerable research and experience will be required to bring about needed improvements.

One of the most serious sources of contention in the operation of the I.W.A. has arisen out of the difficulty of its framers to accurately predict the future state of the market during the course of the agreement. Private buyers and sellers would not likely commit themselves for quantities and prices for a period further ahead than they felt they could predict with a reasonable degree of certainty. In few cases would this be as long a period as is contemplated in most commodity agreements. Neither has the record of achievement in forecasting market conditions by past commodity agreements been high. This would seem to indicate that definite commitments not be made for too long a period ahead or that some means be provided for introducing flexibility in response to changed conditions that are not very short term in nature. Care would have to be exercised, however, that flexibility is not obtained at the expense of stability.

To secure general price level stability is the chief aim of a multiple-commodity reserve plan. At the same time little stability is added to individual prices. The I.W.A., on the other hand, stabilized the price of wheat but not the general price level or prices of other goods, and as a result the terms of trade went against the wheat producing areas. It would seem that if benefit derives from
these two types of plans, advantage could be gained by combining the stability and flexibility aspects of both schemes. A commodity reserve plan supplemented by measures to stabilize individual commodity prices would fill the need. However, the limitations on the use of a commodity reserve scheme under present conditions, as has been mentioned above, reduces its practicability.

An integrated series of commodity agreements of the I.W.A. type which incorporate some means of changing prices according to changing conditions would offer a promising alternative. Multilateral agreements for commodities most subject to wide price fluctuations would provide stabilization for the individual commodity. If these agreements could be coordinated with a composite index of primary products traded internationally or even a general wholesale price index, a greater degree of general stability would be given to the primary commodity segment of the economy and at the same time attention would be given to the price position of individual commodities. Such a plan would not contribute as much to general price level stability as would the commodity reserve since the magnitude of its operations would be smaller. But under the assumption of gradually expanding productivity and prices and relatively full employment, the need for stabilization measures would not be so great as contemplated by the proponents of a multiple-commodity reserve which was designed to combat cyclical fluctuations.

Many technical problems would be presented by such a plan. The prices or price range could be determined by multilateral bargaining
as under the I.W.A. Provision would then have to be made for price revision according to the movement of the index. Such a price revision would not be based on small movements in the index as are the escalator clauses in many recent wage contracts, otherwise stability would be sacrificed. Rather, the price would not be increased until the guiding index had risen a certain percent above what it was at the time the agreement was negotiated and remained that high for a certain period of time, say for example, a 20 percent rise for at least a month. This sort of "stair-step" price policy is not new. It is the type of revision used by the British Exchange Stabilization Fund in the 1930's and is actually similar to the price policy followed by public utilities.

A major problem, of course, would be the choice of an index. What commodities, prices and qualities should be included, and what base period used? An index of controlled prices would seem unsuitable as a guide to what the controlled price should be, yet this is what would occur if there were agreements for several commodities whose prices would be included in the index. However, while this situation would pyramid the stabilization effects, if these commodities had sufficient weight in the index to stabilize it, it would really only indicate that the commodity agreements were serving their purpose. If agreements of the I.W.A. type were used, leaving a segment of the market uncontrolled, the "free market" prices could be used in the index. But not only is it difficult to get representative free market prices or to know how much of a commodity changed
hands at those prices, but as was pointed out in the operation of
the I.W.A., the free market price is influenced by the controlled
price. Considerable investigation would be required before a suit­
able index could be worked out but nevertheless such a plan would
still seem to be less complex to devise and operate than a composite
commodity reserve plan, and much more politically expedient.

Though not for this particular purpose, a general index of this
type is maintained by the London Economist. This indicator uses
prices of 17 commodities. For 13 of them a single quality is used
and for wheat, cotton, wool and copra more than one type is used.
Prices are taken from the most representative market, eg., London for
tin and rubber, New York for copper, lead and zinc, Colombo for tea.
A base period, July 1949-June 1950, was chosen and an arithmetic, un­
weighted average is used. The commodities are selected by groups, the
number of commodities in each group corresponding approximately to the
relative values of world trade in these groups before and after the war.
The groups are as follows:

6 foods - wheat, corn, coffee, cocoa, tea, sugar.
4 fibres - cotton, wool, jute, sisal.
4 metals - copper, lead, zinc, tin.
3 others - rubber, petroleum, copra.

For example, food with 6/17 of the items has an effective weight of
35 percent in the indicator. This corresponds almost exactly to the
proportion that food represents in the value of all basic commodities
entering international trade. While the group weights appear reasonable

192/ "A Commodity Price Indicator", Economist, July 19, 1952,
pp. 182-185.
the fact that each one of the single commodities has an equal weight of nearly six percent leaves much to be desired. Neither has account been taken of seasonality in the index. This index is probably not precise enough to base the movement of agreement prices on, but it does serve as a useful illustration of a world commodity index and further research on it may increase its usefulness.

In considering the more generalized use of agreements of the I.W.A. type is it recognized that this type of agreement cannot be used equally well with all primary commodities. However, it appears that many of those writers who point out the fact are again depression oriented. The multilateral bulk purchase contract is considered best for foodstuffs where the basic demand is relatively stable over a period of years. But for primary commodities which are raw materials, and therefore have the demand for them conditioned by industrial activity, it is felt that countries would not be willing to make quantity and price commitments for a period of time. For these commodities restriction schemes have been suggested as more appropriate even though they would not have the security of guaranteed prices and purchases. Such a suggestion loses much of its strength under the assumption of a gradually expanding world economy and sufficient "know-how" to avoid further catastrophic depressions.

A more cogent argument against the general applicability of the I.W.A. type of agreement to many agricultural commodities is the problem of quality standards. Wheat is relatively easy to standardize and can be bought and sold on a grade basis without seeing the
actual commodity. Wool, on the other hand, has many more types and qualities and the price differentials for the various types vary considerably during the season. However, for most commodities for which agreements would be considered, classification would probably not be so difficult. Even for wool, the experience gained in classifying and selling dominion wool surpluses after the war by the Joint Organization, and the fact that a futures market exists for wool which implies a satisfactory method of grading and setting price differentials, would indicate that the difficulties would not be insurmountable.

A further advantage which could accrue from a series of multilateral bulk purchase contracts might be pointed out, though it would probably be worthy of considerable research in itself. A large number of the world's primary commodities originate in the sterling area. With suggestions for restoring sterling convertibility becoming more and more prevalent, a series of agreements covering sterling area commodities, and providing for guaranteed quantities and prices, could do much to provide an element of dollar income certainty and thus aid in planning a convertibility scheme. This would be similar to the benefits derived from the I.W.A. in underwriting domestic farm programs and in aiding importing countries in planning their dollar expenditures.

Most of the past forms of commodity agreements have aimed at price raising owing primarily to their depression and "surplus" orientation. To a country such as the United States, becoming
increasingly dependent on imported raw materials, this could be disadvantageous to their terms of trade. Assuming the expectancy of a gradually expanding economy, however, this disadvantageous situation may not occur with the multilateral type of commodity agreement. The experience of the I.W.A. has been that under conditions of relative scarcity, the agreement price is lower than the market price. This fact would seem to have generalized validity for an expanding economy where the price trend is upwards. The price that is arrived at as a result of multilateral bargaining will be one influenced not only by present prices but also by prices of the past. In all probability then, the price will be lower than the market price. It will thus be to the advantage of exporting manufacturing countries to engage in this form of agreement for their raw materials. And while it is true that producers would be at a disadvantage pricewise to engage in such agreements under these conditions, there would appear to be other factors such as reduced price instability which they are less able to withstand, and assured markets, which would compensate for a lower contract price.

The means by which agreement on prices and quantities was reached under the I.W.A. by multilateral bargaining set a promising precedent. The imperfections and obstacles to free operation in commodity markets which result in gross inequities have already been mentioned. Previous agreements recognized these imperfections but attempted to improve them by one group imposing a set of conditions

on the market. The multilateral agreement permits bargaining in a quasi-market relationship by all parties concerned. Under the present day institutional arrangement of commodity markets, the result of such bargaining may come closer to the equating of marginal costs and marginal returns than would the free operation of the market. A criticism might be levied that those who do the bargaining are not those who eventually must buy and sell the commodity. This would have more validity were it not for the fact that government control of important commodity markets is now so prevalent that in any international transaction, private buyers and sellers on one side of the market would likely find themselves facing a government body on the other side. It is probable that under these circumstances a delegation with interest in a bulk contract and bargaining at a multilateral convention would be in a better position than an individual firm dealing with a government monopoly and subject to any capricious unilateral action it may care to take.
PART IV

SUMMARY AND CONCLUSIONS
CHAPTER XV

SUMMARY OF THE INTERWAR AND POSTWAR PERIOD

The Interwar Period

The Industrial Revolution brought with it a rapid increase in the needs both for industrial raw materials and for food for the rapidly expanding urban population. For the most part, these requirements could not be met in the areas in which the expansion was taking place, so international trade became essential. As long as the industrial economy was in the phase of enormous expansion, the farms and plantations supplying the primary agricultural commodities experienced a "golden age."

As the rate of expansion began to slow down, particularly since World War I, primary producing areas felt considerable economic distress. The previous flow of international trade became disrupted as a result of such factors as economic depression, wartime dislocations, shifts in demand, and nationalistic measures to reduce unemployment and protect home producers. The influence of these factors was enlarged by the difficulty of adjustment in primary producing areas resulting from characteristics peculiar to the agricultural industry itself.

Beginning in the late 1920's, successive conferences concerned with interregional and international economic relations included the raw materials problem in their discussions and published statements of policy relating to the use of commodity agreements as a solution. Several plans were put forth in the interwar period, both in practice
and in theory, with the aim of reducing the wide fluctuations in prices and incomes in the primary commodity segment of the economy.

The obstacles in the path of a smooth flow of trade in agricultural commodities during the interwar period were the result of, and no doubt in some cases the cause of, burdensome surpluses. Aside from the outright destruction of the commodities, three solutions to the surplus difficulties seemed to present themselves. The goods could be disposed of on the market at necessarily low prices. But this was the distressing situation for which an alternative solution was sought. The commodities could be stored and disposed of in an orderly manner during periods of shorter supply. This was the solution the proponents of the majority of the theoretical plans, most of which were a form of buffer stock, had in mind. A third alternative was that of cutting back on production at its source by restricting the amount grown or marketed. This was the solution apparently deemed most practical for it was embodied in most of the actual international agreements which were instituted.

Almost all of these latter plans were brought about by producer interests. The aim of restriction was usually price raising rather than price stabilizing, an aim to which importing and consuming groups could obviously not give their enthusiastic support. At one time or another, agreements were in effect for coffee, beef, rubber, sugar, tea, tin, wheat. Those for coffee and beef provided a greater degree of importing country representation in that the United States and the United Kingdom respectively were the sole importers and were therefore
in a key position. The beef agreement, however, was instituted more in the interests of United Kingdom producers than consumers. In all of the agreements except beef, control was exercised by restrictive measures both on production and exports. It was apparently hoped by this means to raise prices and incomes, for in no instance was stabilization attempted by specifically setting prices, and only in the 1941 coffee agreement and the 1942 wheat agreement (which never actually operated) was a given amount of trade made certain by import commitments.

The coffee and beef agreements both seemed to be fairly successful in bringing orderliness to the market and in producing some stability of prices. In both of these agreements, however, there was a high degree of mutuality between exporting and importing countries, and the interests were broader than the immediate betterment of producer groups. The United States, though a monopsonistic importer of coffee, also had an economic and political interest in the Western Hemisphere. The interest of the United Kingdom in her own beef producers counterbalanced the interests of the producers in the exporting countries. Neither of these two agreements, however, was actually expansive in its outlook until wartime needs made the restrictive provisions inoperative. Under the tea agreement prices remained both stable and moderate, though here too restrictive control of plantings and exports was used. Special conditions characteristic of the tea market facilitated the operation of the agreement. Both consumption and production are unusually stable and both take place largely within
the political area covered by the agreement, which made it possible to bring 85 percent of world exports under control and reduced the practicability of consumer exploitation by producer interests.

The sugar agreement which came into being in 1931 (Chadbourn Plan) was a failure for it operated in the midst of a depression and failed to control production from sources outside the agreement. The 1937 agreement has met with more success in stabilizing the industry. While this agreement was again restrictive in its approach, consuming countries were given significant voting power. And while the United Kingdom and the United States have tended to favor the expansion of exports from low cost areas, the difficulties involved in the nationalistic support of high cost beet sugar production in competition with low cost cane sugar areas still exists.

In terms of restriction and producer control, the agreements for rubber and tin represent the opposite extreme to some of the others just mentioned. This fact too, arises out of the nature of the conditions of production and marketing of the commodities. Tin offers the possibility of tight control due to limited production locations, close financial integration of mining and smelting interests and meager competition of substitutes. As a result, the 1931 tin agreement more than doubled the price in two years and high cost producers were kept in business. Consuming countries were later granted representation but their effectiveness was extremely limited. Similarly, the Stevenson Plan for rubber in 1922 was very restrictive and probably came closer to complete control of production than any other
international plan for an agricultural commodity. Here again a major portion of production is concentrated in large plantations. However, prices were raised so high that outside production, particularly that of the natives, was encouraged and the agreement broke down in 1928. The agreement of 1934 proved to be more flexible and a considerable measure of price stability was achieved. A gesture was made towards consumer representation by including representatives of the processing industries of the United States, United Kingdom and Germany as advisers. Their influence appears to be meager however.

The 1933 wheat agreement was the only agreement for wheat, prior to the current one, which actually came into operation. Like the other prewar agreements, it too depended for its success on restriction of production and exports. However, the effectiveness of its methods was never really put to the test for the member exporting nations failed to conform - Argentina exceeded her export quota and only in Australia was acreage reduced by the proposed 15 percent. The importing countries were thus not required to meet their obligations of reducing tariff barriers and acreage.

In general, prior to the outbreak of World War II the problem of raw commodity surpluses had become a critical one. Some of the surpluses were unavoidable in that they arose out of overcapacity, while others were induced by national policies. As an escape, producing areas resorted to a restrictive spree which left a distasteful economic hangover in the minds of those who felt the effects in importing countries, and left continued distress in those producing areas in
which restriction attempts failed to bring relief. For the most part, wartime needs brought the period of surpluses and production restriction to an abrupt close. But the end of the war saw production capacity for many primary commodities more greatly expanded than ever before. Fears of surpluses again caused producer groups in exporting countries to look forward favorably to some form of control measures.

Students of the problem and those interested mainly in importing primary commodities, having the prewar form of restrictive agreement clearly in mind, were fearful of any return to the use of commodity agreements. There has also been a widespread feeling of concern over agriculture's ability to provide for the increasing population - the "fifth plate" that will be at the table in 1975 where currently there are only four. The Food and Agriculture Organization has continuously emphasized the need for improved diets in both quantity and quality, almost everywhere in the world. The continuance of a relatively full employment economy will require an increasing amount of both food and agricultural raw materials. If these conditions are borne out, production restriction thus becomes somewhat anomalous.

Since none of the previously attempted agreements had been able to aid in a solution of the problems of international commodity markets without at the same time imposing production or export restrictions, a widespread need was felt for new institutional arrangements that would prove more satisfactory. Postwar policy pronouncements relating to the use of international agreements attempted to provide a framework which would eliminate most of the previous inequities.
The most significant of these pronouncements is Chapter 6 of the proposed Charter for an International Trade Organization which was formulated in Havana in 1948. The first agreement to come into being since that time is the International Wheat Agreement of 1949. It is the product of an evolutionary process and even as late as 1947, incorporated export and production controls in its draft form. It was not until the draft agreement of 1948, which was not ratified, that much of the insight gained from previous agreement forms finally became crystallized operationally.
The International Wheat Agreement of 1949 and the Period Ahead

In many ways the wheat agreement of 1949 is a distinct departure from previously attempted agreements. No effort was made to restrict production. A maximum and minimum price was set. And not only were there export quotas but import quota commitments were made also, so that even if a non-member nation was willing to undersell the agreement, the member countries would be protected to the extent of their quota. Importing countries were given equal voting power with the exporting nations. The importing countries could call for enforcement of the guaranteed deliveries at the maximum price and the exporting countries could demand that the import quotas be met at the minimum price. This agreement thus combined the better elements of the prewar coffee, beef, sugar and tea agreements, but in addition included modifications which would diminish the chances of breakdown and reduce the possibility of so many inequities. A further factor contributing to the fairness of the agreement operation was the interest which the wheat exporting countries had in the political and economic well-being of the importing countries, particularly Western Europe. This is similar to the interest which the United States had in the Latin American countries in setting the terms of the coffee agreement.

This wheat agreement has operated since August 1949 without breakdown and apparently with a high degree of success. It has had many strengths and weaknesses related both to the marketing of wheat...
itself and to its usefulness as a form of commodity agreement. Administratively the agreement has operated with a minimum of staff and expense. While there have been a few difficulties in the recording of transactions, for the most part they have been handled promptly and efficiently. Improved import control procedures of some importing members eliminated most of the difficulties which did arise.

The I.W.A. has operated under conditions of relative scarcity. In such a situation it has probably caused the free market price to be higher than it would have been in the absence of the agreement. However, the average price received by the Australian and Canadian producers has been less than would have been obtained in the absence of the agreement, and there has been no direct effect on the price obtained by United States wheat growers. The major importing countries have obtained a large proportion of their supplies at the lower agreement price and therefore, their average price paid likely has been lower than in the absence of the I.W.A.

The I.W.A. adds little or nothing to the stability of the free market price of wheat and may have a destabilizing effect. However, the average price of wheat has been stabilized. This has benefited the importing countries, but in the absence of similar controls on other commodities, has worsened the terms of trade of the wheat growing areas. The I.W.A. has helped to underwrite domestic price support or stabilization measures in the member exporting countries. In many importing countries, domestic controls have nullified the price stabilizing effects of the agreement for consumers, but the detrimental
effects of the controls are probably less with the agreement in force than without it.

Shipments under the I.W.A. have resulted in government subsidization of about $182 million a year in the United States and considerable reduction in income to the producers in Australia and Canada. These latter reductions have been "opportunity" losses rather than absolute losses. However, it is unrealistic to view the costs only in terms of monetary outlay. They have been partly offset by increased security and reduced foreign aid appropriations, and by the contribution of the agreement to western foreign policy. The costs should be assessed further in relation to the alternative outlay for acreage reduction, and the strain on the balance of payments position of importing countries.

Wheat acreage in importing countries has not increased excessively since the I.W.A. came into effect. To date it is difficult to separate the influence of the agreement on uneconomic expansion from the availability of wheat under foreign aid programs. Producers have shown their reliability as suppliers even though losing income to do so, which may reduce some of the uneasiness that previously contributed to an increase in relatively inefficient domestic production. If wheat production in importing countries does not increase much further, the continuance of the present supply commitment under the I.W.A. will likely require the fullest use of resources presently in wheat production in the United States, Canada and Australia. Continuance of wheat exports at such a high level from the United States
would seem to conflict with the best long run land use policy. In
the United States, Canada and Australia, domestic agricultural pol-
icies appear to have been more important in determining the use of
resources in wheat production than has the I.W.A. In the absence of
the present domestic policies, the price effects of the I.W.A. would
probably have resulted in wheat acreage being reduced in the United
States, increased in Australia, and remaining about the same in Can-
da.

Since a supply commitment as large as that of the United States,
Canada, and Australia will require the fullest use of resources pre-
sently in wheat production, and since a conflict with long run conser-
vation policy in the United States may indicate a reduction in acreage
and if production in importing areas remains approximately the same,
instead of a burdensome surplus of wheat, supplies will be little more
than adequate to meet world demand over a period of years. The prob-
lem then becomes one of handling shorter run fluctuations. This
might also require a modified concept as to what constitutes a bur-
densome carryover from year to year.

The conditions laid down by the I.T.O. Charter for commodity ag-
reements have been met for the most part by the I.W.A. However, if
the danger of a chronic surplus is remote, the basic criterion for a
commodity agreement's existence is not met. If a surplus was contem-
plated, the agreement failed to conform to the I.T.O. Charter by not
including positive measures to reduce continuance of the surplus.
No provision was made in the I.W.A. for arbitration of disagreements, as called for in the I.T.O. Charter, beyond settlement by the International Wheat Council. The need for a higher body such as a Commodity Commission or the possible use of the International Court of Justice is indicated.

The I.W.A. contributes to the objective of the Havana Charter of facilitating an adjustment between production and consumption when normal market forces bog down. It provides the institutional arrangements for continuing wheat trade abroad at a high level by the use of export subsidies without the danger of retaliation that would follow unilateral imposition of such subsidies. It provides an assured supply at a forward price, facilitating the planning of dollar expenditures by importing countries. The I.W.A. is thus consistent with a policy of maximizing export trade and encouraging continued dependence by the importing countries on supplies from abroad.

In relation to the most probable alternative types of schemes which might have been tried, the multilateral bulk-purchase contract has much in its favor. It is less restrictive and involves fewer controls than would measures imposed by individual countries to protect their own economies. Bilateral agreements may prove more suitable under certain circumstances and for particular commodities, but in general, multilateral contracts are more likely to bring expansion of world trade and more efficient resource use. For wheat, where numerous countries are involved, the negotiation and administration of so many bilateral agreements could be very complex. The most
practical consideration operating against a buffer stock or commodity reserve scheme in relation to the I.W.A. is that there have not been sufficient supplies since the war to have set one up. In addition to several relative disadvantages, it would be difficult for a buffer stock or commodity reserve operating internationally to be reconciled with domestic price controls. The complexity of the multiple commodity reserve plan and the fact that it was not designed to relieve the type of problems which have occurred in the postwar period, detracts from its usefulness in relation to the I.W.A.

The brief experience with the Wheat Agreement of 1949 has indicated that this multilateral form of agreement may make a worthwhile contribution to solving many of the commodity marketing problems of the future. The knowledge obtainable from its operation is limited by the fact that it has operated only in a period of high economic activity and relative scarcity of wheat, and one can only deduce what might have happened if a recession had occurred. Several reasons were given earlier, however, which would indicate an expectancy of a gradually expanding economy and a need for a type of scheme that would not be oriented around removal of "burdensome surpluses" nor depend on restriction for its success. If such is the case the operation of the I.W.A. could yield worthwhile data relating to what might be expected of similar agreements in the future, for it is the only commodity agreement that has been conceived in prosperity and matured during greater prosperity.
Under conditions of gradually rising prices, the experience of the I.W.A. has been that the contract price has been lower than the market price. To a country such as the United States, which is becoming increasingly dependent on imported raw materials, such contracts could prove advantageous under these conditions. And while producers would be at a disadvantage price-wise, reduced price instability and assured markets would to some extent compensate for the lower contract price.

Government control of important commodity markets is now so prevalent that in any international transaction, private buyers and sellers on one side of the market would likely find themselves facing a government body on the other side and subject to any capricious unilateral action it may care to take. The multilateral agreement overcomes this problem to a considerable extent by permitting bargaining in a quasi-market relationship by all parties concerned. A delegation with interest in a long term bulk contract and bargaining at a multilateral convention would appear to be in a better position than an individual firm dealing with a government monopoly and the results will likely be more equitable than occurred under the less controlled operation of commodity markets in the past.

A significant aspect of the I.W.A. was the manner in which it was able to be dovetailed in with domestic farm programs. An international buffer stock or multiple-commodity reserve plan, while having many economic advantages over the multilateral bulk purchase agreement, would involve relinquishing sovereignty in the particular commodity
market to an international body, and would therefore not be able to
gain political favor to the same extent as the latter type of scheme.

A major obstacle in many alternative plans and in some past ag­
reements has been their complexity. While negotiation of the wheat
agreement has not been without its difficulties, it has been kept re­
latively simple in its requirements and in its operation, and in this
aspect may set a model which other agreements might follow.

The difficulty faced by the framers of the I.W.A. in accurately
predicting the future state of the market during the course of the
agreement would seem to indicate that definite commitments not be
made for too long a period ahead, or that some means be provided for
introducing flexibility in response to changed conditions that are
fairly durable in nature. Care would have to be exercised that flex­
ibility is not obtained at the expense of stability. A series of
multilateral agreements covering the major primary commodities traded
internationally, and incorporating a provision for change according
to some indicator of general price level movements or the movement
of primary commodity prices is suggested. Such a plan would attempt
to combine the relative simplicity of commodity agreements with a
more generalized price stability for primary products similar to that
which a multiple commodity reserve plan would achieve, and yet avoid
some of the complexities of the latter. No suitable indicator is
currently available and much more research in this direction would
be needed, both in regard to a suitable index, and in relation to how
widely applicable the multilateral bulk purchase agreement is to
other commodities than wheat. Variations in the agreements would probably be needed for commodities which are raw materials rather than foodstuffs and which are therefore dependent for their demand on industrial activity. Commodities less easy to standardize than wheat would also present some problems. The outlook of such a series of agreements, however, would not be one of "burdensome surplus" removal as in many past schemes, nor of large-scale countercyclical control as in the multiple-commodity reserve plan. Rather it would be one of maintaining markets and providing year to year or relatively short term stability.

A large number of the world's primary commodities originate in the sterling area. With suggestions for restoring sterling convertibility becoming more and more prevalent, a series of agreements covering sterling area commodities, and providing for guaranteed quantities and prices, could do much to provide an element of dollar income certainty and thus aid in planning a convertibility scheme.

The wheat agreement, in providing lower-than-market price wheat, actually made a significant contribution to foreign aid. In several ways it also encouraged importing countries to maintain continuing high wheat purchases despite a shortage of dollars. To the extent that this shortage may be overcome in part by increased imports by the dollar areas, the need for and the scope of commodity agreements would be reduced.

Nevertheless, even in periods when a widespread system of multilateral trade was prevalent, there was sufficient inherent
instability in the production and trade of primary commodities to result in considerable distress. Thus, despite increased imports by the dollar areas and a gradually expanding world economy there will need to be a continuing search for methods of reducing instability in the markets for primary commodities. No method or scheme so far devised or tried will please all the participants. The multilateral contract of the International Wheat Agreement type has come closer to what might be considered a desirable form of operation than any previous agreement. There is room for much improvement, however. And though it would seem to be adaptable for wider use, its value cannot be truly assessed until it has been tested operationally on other commodities and under more varying conditions than those of relative scarcity which have prevailed during the first three years of the International Wheat Agreement.
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### Appendix A

**Wheat Acreage in Specified Countries, Year of Harvest, Average 1934-38 and Annual 1945-52**

#### Acreage

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### FOUR MAIN EXPORTING NATIONS

|--------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|

- **Estimated World Total 4/**
  - Excluding U.S.S.R.: 310,726
  - Including U.S.S.R.: 415,823

- **Years Refer to Years of Harvest in the Northern Hemisphere, Harvests of the Northern Hemisphere Being Combined with Those of the Southern Hemisphere Which Immediately Follow.**
- **Harvested Areas as Far as Possible.**
- **Revised Estimated for Northern Hemisphere Countries; Revised Preliminary Forecasts for Southern Hemisphere.**
- **Totals Include Allowances for Any Missing Data for Countries Shown and for Other Producing Countries Not Shown.**
- **Comprises Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Rumania.**

### APPENDIX B

**WHEAT PRODUCTION IN SPECIFIED COUNTRIES, YEAR OF HARVEST, AVERAGE 1934-38 AND ANNUAL 1945-52**

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<td>17,341</td>
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<td>39,348</td>
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<td>30,534</td>
<td>35,830</td>
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### LATIN AMERICA

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### OCEANIA

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<td>5,364</td>
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### FOUR MAIN EXPORTING NATIONS

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<td>552,856</td>
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### Estimated World Total

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<th>5,036,538</th>
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<td>Including U.S.S.R.</td>
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<td>5,558,762</td>
<td>6,289,888</td>
<td>6,194,364</td>
<td>6,320,000</td>
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For footnotes see Appendix A

APPENDIX C

Renewal of the Wheat Agreement

The International Wheat Agreement of 1949 expires July 31, 1952. Renewal talks which began in Washington on January 30, 1953 resulted in a new agreement, the terms of which were agreed upon by a substantial majority of the 46 member nations. The United Kingdom, the largest importer of wheat, refused to join the new pact on the basis that the new maximum price of $2.05 a bushel is too high, though it was assigned a quota in case it decided to participate later.

The new agreement will go into effect August 1, 1953 if ratified by July 15 by countries holding 50 percent of both the import and export quotas. Since the United Kingdom holds about 30 percent of the import quota, the agreement can still go into effect if countries representing an additional 20 percent of the import quota do not drop out also.

The new maximum price has been set at $2.05 a bushel with a minimum of $1.55. The problem of a maximum price was the most controversial subject of the negotiations. The promise of a large crop in the main exporting countries in 1953 seemed to be the bargaining point used by the importing countries to hold down the maximum price. Such being the case, it would seem more economically sound to have concentrated on lowering the minimum price, since that is the level at which the importers' obligations are effective. The new agreement is to run for three years, and no provision is made for changing the price during this time.
The total amount of wheat covered by the agreement has been raised from about 580 million bushels to 595.5 million. The commitments of Canada and the United States have been raised while those of Australia and France have been lowered. There will undoubtedly be some changes in quotas if the United Kingdom does not join, since the latter country has been a traditional market of Canada and Australia. These countries will not wish to have their supplies committed to the extent that they will not be able to meet the needs of the United Kingdom outside the agreement.

The quotas pledged by signing importing nations are as follows:

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<th>Quota</th>
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<td>Belgium</td>
<td>22,597,382</td>
</tr>
<tr>
<td>Bolivia</td>
<td>3,490,652</td>
</tr>
<tr>
<td>Brazil</td>
<td>13,227,736</td>
</tr>
<tr>
<td>Ceylon</td>
<td>9,369,646</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1,286,030</td>
</tr>
<tr>
<td>Cuba</td>
<td>7,422,229</td>
</tr>
<tr>
<td>Canada</td>
<td>250,000,000</td>
</tr>
<tr>
<td>France</td>
<td>367,437</td>
</tr>
<tr>
<td>Germany</td>
<td>12,860,299</td>
</tr>
<tr>
<td>Greece</td>
<td>12,860,299</td>
</tr>
<tr>
<td>Haiti</td>
<td>1,653,467</td>
</tr>
<tr>
<td>United Kingdom (122 countries)</td>
<td>595,542,052</td>
</tr>
</tbody>
</table>

The amounts pledged by the exporting nations are (in bushels):

<table>
<thead>
<tr>
<th>Country</th>
<th>Quota</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>75,000,000</td>
</tr>
<tr>
<td>Canada</td>
<td>250,000,000</td>
</tr>
<tr>
<td>France</td>
<td>367,437</td>
</tr>
<tr>
<td>United States</td>
<td>270,174,615</td>
</tr>
<tr>
<td>Total</td>
<td>595,542,052</td>
</tr>
</tbody>
</table>
I, Gordon Joseph Dobson, was born in Moose Jaw, Saskatchewan, Canada, April 14, 1921. I received my elementary and high school education in that city. Following four years in the Royal Canadian Air Force, I entered the University of Saskatchewan in 1944 and obtained the degree Bachelor of Science in Agriculture in 1948. I received the Master of Science degree from The Ohio State University in 1949, during the completion of which I held a Research Fellowship in the Department of Poultry Husbandry. In October 1949 I was granted a Research Assistantship in the Department of Agricultural Economics and Rural Sociology and have held this position while completing the requirements for the degree Doctor of Philosophy.