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# W H E A T   S T U D I E S

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## NEW INTERNATIONAL WHEAT AGREEMENTS

*Joseph S. Davis*

From the Washington Wheat Meeting of the five nations with the largest stake in overseas trade in wheat, new international wheat agreements emerged in mid-1942. These involved: (1) commitments by the five countries to make donations to a "relief pool" of wheat, and by the four chief exporting countries to adopt or maintain positive measures to control their wheat production; (2) the establishment of an International Wheat Council to administer these international arrangements and others that may come into effect during the war and after hostilities cease; and (3) the publication of a draft of a fairly comprehensive international wheat agreement.

The few steps on which agreement became effective at once seem timely and reasonable. The new Council faces important opportunities to facilitate the co-ordination of national wheat policies, especially if it strives to promote the fullest utilization of this abundant resource.

The Draft Convention is designed to be brought into operation among the five countries by degrees, as further decisions are taken, and also for submission, at some future date, to "a wheat conference of the nations having a substantial interest in international trade in wheat." An extremely ambitious scheme for postwar application, it provides for large reserve stocks, production restraints, export quotas, and minimum and maximum prices of wheats moving in international trade.

For a peacetime world, this elaborate system of restrictive regimentation seems out of harmony with evolving principles of international economic relations appropriate to a world rededicated to freedom and progress. It merits the most searching study by all interests concerned, before any of its main provisions comes into operation and before it is submitted to the proposed international conference.

STANFORD UNIVERSITY, CALIFORNIA

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# NEW INTERNATIONAL WHEAT AGREEMENTS

Joseph S. Davis

Before this war began the United Kingdom had long been by all odds the outstanding wheat-importing country, while Canada, Argentina, Australia, and the United States had been for two decades the four chief exporting countries—on the average, though not in every single year. Their predominance in these roles has increased during the present war, though Canada has far outstripped all others in volume of wheat and flour exports. In all five countries, with their divergent wheat problems and policies, governmental agencies now exercise powerful if not dominant influence on wheat production, stocks, disposition, and prices. All of the four exporting countries have faced embarrassing problems of wheat surplus. As the joint re-

sult of good yields per acre and various conditions preventing full disposition of annual surpluses over ordinary domestic requirements, their aggregate stocks of wheat have now risen to unprecedentedly huge totals. Bilateral relationships among the five countries have seemed to need to be supplemented by some common intergovernmental understanding in respect to wheat, with reference both to the war period and beyond it. Accordingly, after protracted efforts, these countries have recently concluded certain agreements.

The commitments immediately effective are few. More important are conditional agreements dependent on future decisions. What will develop from these may depend in no small measure on how the new International Wheat Council actually functions. Of much larger concern is a published agreed draft of a proposed comprehensive wheat agreement, now in effect to only a small extent. This is put forward for later submission to an international wheat conference and for possible adoption, with modifications, by

a large number of nations for which wheat is an important staple. As it stands, this "Draft Convention" provides for thoroughgoing international regulation of international trade in wheat and flour, through fixing of specific minimum and maximum c.i.f. and f.o.b. prices and a system of export quotas, which in turn is tied in with more flexible provisions concerning reserve and surplus stocks, and production controls, in the exporting countries.

These agreements are very complicated. There is room for substantial divergence in interpretations of their content and significance, on broad issues as well as in details. Accordingly, the primary aim of the present study is to try to clarify, at the risk of tediousness, the rather intricate picture of the

agreements themselves, and to bring out the significance of their several elements unobscured by the roseate glow that tends to color some official comments and interpretations.

International planning is most often discussed in broad, general terms. These new international agreements represent a specific example of international planning in the concrete. In some high circles, indeed, the Draft Convention is viewed as a model to be followed with a large number of commodities, in a system of "orderly international marketing" designed for the postwar economic world. As such, this Convention especially warrants careful examination. How well would such a scheme meet the needs of the postwar transition period in which it might come into effect? What hope does it offer for solving recognized problems of a peacetime world, or at least promoting their solution? What promise lies in this type of international economic collaboration? What sort of changes in philosophy, principles, machinery, and devices might be desirable in order to

## CONTENTS

	PAGE
<i>Evolution of the 1942 Agreements</i> .....	26
<i>The Interim and Contingent Agreements</i> .....	31
<i>The Draft Convention</i> .....	42
<i>Stocks and Production Restraints</i> .....	49
<i>Export Quotas</i> .....	57
<i>Price Regulation</i> .....	63
<i>Concluding Observations</i> ....	71

make such collaboration more effective in the general interest? Here no attempt is made to deal with these questions exhaustively, but an additional objective of the present study is to contribute something in these directions.

The broad facts regarding the background and evolution of the agreements are first briefly sketched, subject to correction when the veil of official secrecy is eventually lifted.

We then proceed to the interim agreements, the set-up and early actions of the International Wheat Council, and additional commitments contingent on specific future decisions. The main provisions of the Draft Convention are next examined in some detail. Finally, some observations are made on the agreements as a whole, and some critical and constructive suggestions offered.

## I. EVOLUTION OF THE 1942 AGREEMENTS

The first multilateral International Wheat Agreement was concluded in London in August 1933, after several successive conferences headed in this direction. It was designed to facilitate coping with the large and persistent world surplus of wheat, and to raise wheat prices from the distressingly low levels to which they had declined in the chief exporting countries and on open international markets. The agreement was signed, with various reservations that were circulated in mimeographed form but not otherwise published, by 22 importing and exporting countries, one of which (the Irish Free State) exercised its right to withdraw its signature. At first it was officially hailed in this country as a great achievement. Though intended to run for two years, this pact virtually broke down within a year, after having disappointed the hopes of its supporters at practically every point. Efforts to revise, strengthen, and extend it proved vain, but it was not formally terminated before it expired.<sup>1</sup>

<sup>1</sup> On earlier conferences and the 1933 agreement, see A. E. Taylor, "The International Wheat Conferences during 1930-31," *WHEAT STUDIES*, August 1931, VII, 439-75; J. S. Davis, *Wheat and the AAA* (Washington, D.C., 1935), chap. x; Paul de Hevesy, *World Wheat Planning and Economic Planning in General* (London, 1940), pp. 850-62 *et passim*. Wilfred Malenbaum devoted a chapter to this subject in his unpublished Doctoral dissertation (Harvard, 1941), *Equilibrating Tendencies in the World Wheat Market*.

For an analysis of "The World Wheat Problem," as viewed by the present author in mid-1932, see *WHEAT STUDIES*, July 1932, VIII, 409-44. For A. E. Taylor's discussion of the broader problem of "International Wheat Policy and Planning," see *ibid.*, June 1935, XI, 359-404. The evolution of the world wheat problem during the last decade, and the numerous measures taken to deal with it, have been extensively discussed in our annual reviews of the world wheat situation, published in December issues of *WHEAT STUDIES*.

The failure of this initial attempt was due to a combination of factors. Among other things, the export-quota device did not operate, as the framers had expected, to force up wheat prices. Even at much lower prices than were aimed at, importing countries were able to buy all they wanted, without pressing upon the limits set by the aggregate quotas. Late in the season, demand improved and Argentine exports ran over her quota. Her crop had greatly exceeded early forecasts, suitable storage facilities were lacking, terms for enlargement of her quota were not agreed upon, and her representatives plausibly argued that the North American producers had already failed to fulfill the badly worded commitments to contract their wheat acreage for 1934. Recriminations spoiled the atmosphere for revising the pact.

The Wheat Advisory Committee (WAC) created under the 1933 agreement was nevertheless continued. During the years 1935-38, when overburdening wheat surpluses gradually disappeared under the influence of a succession of severe droughts, the WAC and its secretariat kept alive the idea of a new international agreement. The most powerful and persistent advocate of this policy was the Secretary of Agriculture of the United States, Henry A. Wallace, now Vice-President. Confident expectations that a world wheat surplus would recur—expectations shared in various other quarters but by no means by all competent observers—were borne out in 1938, when the world ex-Russia ex-China harvested a bumper crop 20 per cent above the average annual utilization in the six preceding years.

This outstanding event cast its shadows before. Intergovernmental discussions of a new

international wheat agreement began in the spring of 1938. At a London meeting of the WAC in July, 16 of the nations signatory to the earlier pact were represented, and the American proposals were unanimously referred to the respective governments. Secretary Wallace wrote in his annual report for 1938 (dated December 1 and released to the press December 16):

Our Government is doing what it can to persuade other wheat-exporting nations to join in what might be called an international ever-normal-granary plan; in a plan to stabilize the amounts of wheat offered on the world markets by each nation year after year.

The United States, indeed, had embarked on its export-subsidy policy in August 1938 only after exhausting every effort to bring about a new agreement, and in the obvious expectation that this line of action would put the requisite force behind the arguments of its spokesmen.<sup>2</sup> It did undoubtedly exert powerful influence. Argentina had long been "out of step" on the subject and had ceased all cooperation in 1936; but in September 1938 she appointed her Minister to Hungary (Carlos Brebbia) to represent her on the WAC. This committee reconvened in London in January 1939. In the ensuing months, hard work on the part of its Preparatory Committee (representing 10 nations), and particularly by the representatives of the four overseas exporting countries, had brought a draft near to the point of adoption by Argentina, Australia, Canada, and the United States when Germany started her *Blitzkrieg* in Poland.

At this time Baron Paul de Hevesy, an assiduous student of world wheat problems, was in London completing a huge volume on

*World Wheat Planning*. In it he inserted the following passages (p. 39):

At the moment of writing (August, 1939) the "Big Four" (United States, Canada, Argentina, Australia) are discussing among themselves their respective export quotas. Should they reach an agreement, it is intended to invite to London the U.S.S.R. and the Danubian countries to confer with them upon their export quotas; and if all these exporting countries agree, to proceed to a World Wheat Conference, including the wheat-importing countries.

As I understand it, the intention is to fix export quotas and to establish a world minimum price. All exporting countries would accept the obligation to allow no export of wheat below this world minimum price. A further aim of the Conference would be to consider methods for the disposal of the existing surplus stocks.

In a footnote to the last paragraph he added:

Shortly before going to Press, at the end of August, 1939, the Big Four are, so I hear, coming towards an understanding, on the following lines:

(a) A world minimum price of about 32 shillings per quarter for Manitoba No. 3, and other qualities in appropriate relation to this;

(b) For export by the U.S.S.R. and the Danubian countries, a quantity of 125 million bushels to be set aside, and the remaining volume of world wheat exports to be divided between the Big Four, in approximately the following proportions: Canada 40%, Argentina 25%, the United States 18%, and Australia 17%.

While de Hevesy's illuminating summary may not be accurate to the last detail, we are confident that it comes much nearer to giving the correct impression than does any official statement that we have been able to find. Certainly, in the light of all experience to date, it must be inferred that general approval and final acceptance of an international wheat agreement was not imminent, but at least months distant, when the onset of war in Europe terminated the discussions.

There the matter rested for more than a year. Meanwhile, the new world wheat surplus grew to still larger dimensions; complete governmental control of wheat was established in Great Britain and Australia; great extensions of such control took place in Canada, Argentina, and the United States; and the progress of the war left the "big five" even more dominant in the shattered world of

<sup>2</sup> An earlier instance of attempted pressure (which nature thwarted) is thus described in Secretary Wallace's annual report for 1935: "The United States stands ready to cooperate with other nations in bringing about an adjustment of world production to demand. It is believed that an effective international wheat agreement will be hastened if this country continues to produce a sufficient amount of wheat so as to remain an active participant in world trade. In furtherance of this policy, plans for 1936 have been modified so as to permit the production of an exportable surplus of wheat in addition to increasing domestic reserves."

wheat. In his annual report for 1940, Secretary Wallace wrote:<sup>3</sup>

Efforts have been under way for a number of years to develop international marketing agreements for wheat and cotton. Just before the war broke out all the major wheat-exporting nations were on the point of reaching an effective wheat agreement. Such an agreement would have allocated the world market among the wheat-exporting countries and possibly provided also for the maintenance of world wheat prices. The four leading wheat-exporting countries are Argentina, Canada, Australia, and the United States. Three of them are in this hemisphere. If these four countries should develop a cooperative wheat-marketing agreement, it would give them one means by which they could bargain on more or less equal terms with the importing countries. Possibly similar marketing agreements for cotton and other products would be feasible.

On July 10, 1941, representatives of the four chief exporting countries and the United Kingdom, together with the chairman and the secretary of the WAC, met to resume active work on the problem, in what is now called the Washington Wheat Meeting. The summer preparatory sessions ended on August 3, with a preliminary draft of a comprehensive agreement. Of it the new Secretary of Agriculture (Wickard) wrote in his 1941 report:<sup>4</sup>

Longer time considerations have entered into renewed discussions of the International Wheat Agreement. Objectives have been broadened to include matters not heretofore considered. The first chief purpose was the disposal of surpluses; now we find many more things necessary. Among them are means of correcting the surplus problem at its sources, through the stabilization of production internationally. The International Wheat Agreement, prepared by representatives of the United States, the United Kingdom, Argentina, Canada, and Australia, at Washington in July 1941, represents the most recent stage in such negotiations. It goes further toward an international agricultural adjustment program than anything that has preceded it.

The agreement declares that international co-operation is indispensable to the full development of the resources of the world; that a reserve stock or Ever-Normal Granary should be

created to protect consumers; that production must be regulated to demand; that prices should be stabilized at a level in proper relation to other prices and at the same time fair to consumers and producers; that the wheat-producing countries should agree to share the world's markets in periods of surplus; that importing countries should agree to cease the stimulation of uneconomic, high-cost production; and finally, that a stock of relief wheat should be made up by direct contributions by the member governments. For the operation of the purposes of the understanding, an international wheat council is to be set up with full powers to adjust prices, quotas, and shipments to changing conditions.

There is a provision that importing countries shall act as semienforcement agencies. Previous international wheat agreements have not contained this feature. No agreement can be beneficial unless it is fully observed by all of the principal producing countries involved. Such schemes have usually failed in the past because they have lacked flexibility and could not meet unforeseen circumstances. Participation of importing countries in the enforcement operations should help to correct this draw-back. In administrative flexibility the new agreement embodies great improvements. In fact, it represents an ideal which may not be as fully reached with other commodities.

In a later passage of the same report Secretary Wickard dealt with the United States export-subsidy program and concluded:

Practically all wheat-producing countries are attempting to support prices to their wheat growers through governmental action. This fact, coupled with our own wheat-price-supporting program, indicates it will be necessary to continue the export subsidies, unless our production declines greatly or we allow the surpluses to mount higher and higher or there is a change in our farm program. It is possible that an international wheat agreement will be concluded that will raise world prices well above the present level. In that event the subsidy rates can be reduced. There seems, however, to be small prospect under present conditions that world prices will climb up to our high domestic level, and consequently small prospect that we can dispense entirely with the subsidy principle.

With somewhat different membership, the Washington Wheat Meeting reconvened on October 14, 1941, and "principal conference sessions" continued for six months. At a final session on April 22, 1942 a Memorandum of Agreement was initialed by one representative of each of the five countries, together

<sup>3</sup> Though not released until Jan. 17, 1941, the report is dated Sept. 4, 1940, the day before Secretary Wallace resigned.

<sup>4</sup> This report was dated Nov. 1, 1941, and released to the press Jan. 26, 1942. See also L. A. Wheeler, "Agricultural Surpluses in the Postwar World," *Foreign Affairs* (New York), October 1941, XX, 87-101.

with the minutes of that session containing significant interpretations of the Memorandum. These documents were officially made public on July 2, 1942, with an announcement declaring the Memorandum of Agreement approved and in effect as of June 27.<sup>5</sup>

Attached to this Memorandum is a Draft Convention, as yet unsigned,<sup>6</sup> that reflects the latest ideas of the conferees, after extensive consultations with their governments, as to what a comprehensive wheat agreement should be. It is safe to infer that this contains many of the elements in the draft that was nearly agreed upon in August 1939, and in the revised version that emerged from the preliminary sessions of the Washington Wheat Meeting in July–August 1941. At various stages it was subjected to close scrutiny in departments of the participating governments. As it eventually emerged, with some changes of more or less substantial character, and various insertions and modifications in wording, it may be entirely accurate to say: "It constitutes a record of the five governments' views regarding a new world wheat agreement."<sup>7</sup> Nevertheless, this comprehensive agreement cannot be regarded as adopted in the full sense of the word "adopted," as we infer had been confidently expected as late as

September 1941. Instead, the Memorandum of Agreement brings now into force a few specific provisions of the Draft Convention, and also sets forth certain additional understandings contingent on future decisions, which may conceivably bring into effect nearly the whole of the Convention. These are discussed in Section II.

From the standpoint of United States constitutional law, the present Memorandum of Agreement, like the International Wheat Agreement of 1933 and the reciprocal trade agreements, is an "executive agreement" rather than a treaty, and hence is not subject to the constitutional requirement of approval by a two-thirds majority vote of the Senate.<sup>8</sup> Whether such agreements as the Draft Convention will subsequently be treated as executive agreements or as treaties, we cannot predict.

On the "Urgency of an Agreement," one official commentator writes:<sup>9</sup>

There were four fundamental reasons for negotiating a wheat agreement at once, and it is upon these premises that the meetings were held and an agreement reached. They are, namely, (1) the present serious wheat-surplus problem in the four overseas exporting countries, (2) the prospective wheat relief needed immediately after the war, or earlier if deemed feasible, (3) the need for joint action in stabilizing the post-war international wheat trade to prevent a wheat war from breaking out, with its serious economic and political consequences, and (4) the probable difficulty in holding an international wheat conference immediately after the end of the war that would be able to conclude an agreement in time to meet the urgent post-war problems for wheat.

The high hopes entertained, at least in some official circles, are thus expressed in another statement by the same writer:<sup>10</sup>

This international wheat understanding indicates not only a possibility for future development regarding this commodity but a kind of international cooperative action that may come later. It represents one of the first specific international understandings looking toward the post-war period, and as such it will no doubt be used as a pattern for other international commodity agreements. It shows one of the ways in which "the peace may be won."

Such ambitious designs render imperative a thoroughgoing analysis of the Draft Convention, which we attempt in Sections III–VI.

<sup>5</sup> *Department of State Bulletin* (U.S.), July 4, 1942, pp. 582–94. The other governments published them simultaneously. The same documents were soon included in a processed publication of the U.S. Department of Agriculture, Office of Foreign Agricultural Relations, entitled *The International Wheat Agreement Prepared at the Washington Wheat Meeting July 1941–June 1942*. This publication (hereinafter referred to as OFAR) contains four additional sections: sample notes of approval by governments; lists of delegates and aides; a statement (by Gordon P. Boals) of the background of the meeting and an analysis of the Draft Convention; and the State Department press release on the organization meeting of the International Wheat Council. Mr. Boals also contributed an article, "New World Wheat Agreement," to an organ of the Office of Foreign Agricultural Relations designed for circulation in North and South America: *Agriculture in the Americas*, August 1942, pp. 148–50.

<sup>6</sup> The *Corn Trade News* (Liverpool) reprinted the Draft Convention in its daily issues beginning July 8, and in its weekly edition of July 22, with a headnote erroneously implying that the Draft Convention had already been signed by the five countries.

<sup>7</sup> Boals, OFAR, p. 21.

<sup>8</sup> See Wallace McClure, *International Executive Agreements* . . . (New York, 1941).

<sup>9</sup> Boals, OFAR, p. 24.

<sup>10</sup> *Ibid.*, p. 21.



Our general viewpoint may well be stated frankly at the outset. On the one hand, we regard as exaggerated the hopes of constructive achievement through international planning of the type represented by the Draft Convention, and consider its dangers unduly minimized by advocates of such pacts. Rightly or wrongly, we believe it would be extremely unfortunate if postwar international policy should be crystallized into this particular pattern. It could easily bring costly disillusionment and stand in the way of desirable progress.

On the other hand, we cannot share the views of some extreme critics who, overimpressed by the limits of the agreements thus far operative, assert that the mountain's long labor brought forth only a mouse, and argue that, if this is the best that could be achieved, the whole effort ought to be abandoned as hopeless. We are convinced that valuable results may be achieved through realistic international economic collaboration, in the realm of wheat as in other areas. We consider that it would have been premature to bring into full force any comprehensive wheat agreement now. Yet the world wheat position and outlook are such that we believe it was high time to set up an International Wheat Council with important powers and duties. We entertain the hope that the Council will not be unduly hampered by the terms thus far agreed upon, and that it will prove genuinely helpful in coping with difficulties that will arise dur-

ing the war, when hostilities cease, in the ensuing period of transition to real peace, and in the peace period proper.

#### NOTES ON PROCEDURE

The Washington wheat agreements were developed in great secrecy, almost wholly by government officials of the five countries.<sup>11</sup> The international Wheat Advisory Committee was represented throughout by its chairman, H. F. Carlill, British delegate and chairman of the July–August sessions, and its permanent secretary, Andrew Cairns. Several agencies of the United States Department of Agriculture, and the Canadian Wheat Board, were well represented, and the British representation was stronger during the second series of sessions. Contrary to the procedure specified in the Trade Agreements Act, in connection with reciprocal trade agreements, no opportunity was offered interested persons to present their views prior to the conclusion of the agreement, and no procedure was established for receipt of their views. Indeed, so far as we can ascertain, there was no representation of or consultation with the wheat pools of Canada and Western Australia, which were favorably disposed on principle, or with the commercial grain trade, millers, and unofficial students of wheat, whose opinions were more commonly hostile, critical, or at least skeptical. In Australia, Commonwealth Government officials took counsel at a late stage with representatives of strong wheat-growers' organizations,<sup>12</sup> but this was exceptional.<sup>13</sup> In general, both critical and constructive ideas of outsiders were unsought if not unwelcome.

This secretive procedure might have had serious—or at least unfortunate—consequences if the agreement reached had been both comprehensive and definitive. Since the points of immediate agreement are few and mild, and since most really important decisions were deferred, there is cause for congratulation in that a document has been published to display the ideas of the drafters in ample time for adequate consideration by all concerned, before further steps are taken to bring this or some modified or alternative scheme into full force.

<sup>11</sup> Lists of the delegates and aides are given in OFAR, pp. 19–20.

<sup>12</sup> Reported by J. W. Diver, in *Primary Producer* (Perth, W.A.), July 16, 1942, p. 1.

<sup>13</sup> At the annual meeting of the Eastern Oregon Wheat League, Dec. 4–6, 1941, the Director of the Western Division of the AAA (N. E. Dodd) was asked to report on the progress of the Washington meeting; but he felt constrained to say extremely little—much less than Secretary Wickard put into his annual report. In his historical statement Mr. Dodd failed even to mention the International Wheat Agreement of 1933. He did say: "If we enter the export markets of the world we are going to have to reach a price agreement with the other countries or be forced to meet their competition. I do not believe the American consumers will continue to approve large sums of money to be used to pay export subsidies, and we may have to adopt some sort of a two-price system if we want to continue to export wheat."

The manner in which these agreements were negotiated is so much the rule that government officials may find it surprising that any other course could be advocated. It may be granted that the Wilson ideal of "open covenants, openly arrived at" is impractical, and that a considerable measure of secrecy is necessary during the process. But there is something intermediate between secret negotiations and an open forum.

In this instance, the broader agreement under consideration has far-reaching bearings on wheat growers, wheat pools, the grain trade, and millers, to say nothing of other interests. Apart from their vital concern with its provisions, their store of knowledge is too important to be ignored; and in some details, as well as in certain major provisions, the Draft Convention bears the marks of this neglect. Furthermore, its sponsors expected it to serve as a pattern or model upon which other commodity agreements could be drafted with less expenditure of time. This particular agreement was therefore of much more than ordinary concern to other commodity groups and also to students of national and international policy. If nations are to launch such a major new departure in economic policy, procedures appropriate to its launching might well be worked out and applied, in order to minimize the risks of making serious blunders and to maximize the chances of reaching sound and workable results.

In our opinion, certain additional steps could wisely be made a regular part of the procedure in almost every such instance. Such a Draft Convention should be published at least three to six months in advance of its final consideration by the drafting body. At the least, invitations should be extended to interested persons and organizations, in general if not specifically, to submit reactions,

criticisms, and suggestions. Perhaps open hearings on the subject should also be arranged. When these materials were available to the conferees, they could resume their work. If this were done, we should expect the eventual outcome to be better, not only in the substance and detail of the agreement adopted, but also in the spirit of those whose interests are vitally affected.

In our judgment, the need for improving the techniques of international conferencing warrants another departure. After every such experience, the governments concerned might well facilitate both a preliminary and a matured study of the conference, by a thoroughly competent analyst, in time for the crystallized products to be put to further use. Each government might appoint a collaborator or correspondent to aid his work. Opportunity could be given to various participants and their governments to make criticisms and other comments, and those on the matured study could be published as a supplement to it. How fully such materials were available to the participants in the Washington Wheat Meeting, and to the personnel of their governments who have to deal with its outcome, we are not in a position to say; but they are not available to others seriously concerned. The same need arises for a thoroughly competent study of the Washington Wheat Meeting, with the aid of records now held secret.

Our analysis and interpretations rest upon close examination of the published materials as well as prolonged study of the problems involved. We have not had the privilege of access to confidential information, though limited consultation and correspondence with officials concerned has enabled us to avoid errors of fact or interpretation at numerous points.

## II. THE INTERIM AND CONTINGENT AGREEMENTS

What may be called the interim agreement is extremely limited in scope. Only three major decisions become effective now:

1. There is immediately to be established a pool of wheat for intergovernmental "relief in war-stricken and other necessitous areas

so soon as in the view of the five countries circumstances permit."

2. The four exporting countries agree to "adopt or maintain positive measures to control production with the object of minimizing the accumulation of excessive stocks."

3. An administrative body is to be set up. The Memorandum of Agreement includes the statement that "the five countries have agreed to regard as in effect among themselves, pending the conclusions of the conference referred to above, those arrangements described in the attached Draft Convention which are necessary to the administration and distribution of the relief pool of wheat and to the control of production of wheat other than those involving the control of exports." An interpretation of this commitment is embodied in the minutes of the final session of the Washington Wheat Meeting (April 22, 1942). The signers recorded their understanding that specified provisions of the Draft Convention—including those relating respectively to the International Wheat Council (except as to its seat in London), its Executive Committee, Finance, and Definitions—would come into effect with the adoption of the Memorandum of Agreement. The consequent establishment of this Council with its present seat in Washington, replacing the former international Wheat Advisory Committee, is potentially the most important result of the agreement to date.

These three phases of the interim agreement we have now to discuss, before touching briefly on the contingent or conditional agreements that are designed to come into effect at later dates. References to articles of the Draft Convention, and paragraphs thereunder, are ordinarily inserted in square brackets or parentheses.

#### RELIEF PROVISIONS

The agreement with respect to a relief pool of wheat (Article VI of the Draft Convention) calls for donations to the pool by all the five countries, and charges the International Wheat Council with administering the pool.

Canada, the United Kingdom, and the United States stand committed to give, "as and when required by the Council, 25, 25 and 50 million bushels respectively of wheat, or its equivalent in whole or part in flour, f.o.b. sea-board port in the country of origin [VI, 2]." If the option permitted by the following provision were fully exercised, it would reduce the assured aggregate commitment from 100

to 75 million bushels: "The United Kingdom Government may, if so agreed by the Council after consultation with the intergovernmental relief body, contribute transportation of relief wheat or flour in lieu of part or all of its contribution [VI, 5]."

The lack of a definite commitment by Australia may well have been due to the ownership of part of her wheat surplus by the British Government, her present position as a United Nations' base remote from Europe, and uncertainties regarding her future crops and stocks. The absence of any specific commitment by Argentina cannot be fully explained on similar grounds. With no satisfactory basis for setting forth the several factors involved, we think it inappropriate to attempt a partial explanation.<sup>1</sup>

Beyond the definite commitments, however, the governments of the four exporting countries agree to contribute quantities "to be determined by them in consultation with the Council and on such basis as may be agreed among them [VI, 3]." If such quantities seem "likely to prove insufficient, the Council shall make recommendations to the contracting Governments regarding additional contributions [VI, 7]." On the Council's request, any contributing government may make advances of wheat or flour for immediate relief, "pending the arrival of contributions by other Governments," on terms of replacement to be agreed with the Council (VI, 6).

These conditional commitments, it should be emphasized, may mean much or little. They will mean much if each of the participating governments is continually animated by a highly co-operative spirit. They may mean much if the Council and its representatives can attain and maintain the reputation for tact and efficiency, and arrive promptly and smoothly at sound decisions and recommendations. On the other hand, the commit-

<sup>1</sup> The *Times of Argentina* (Buenos Aires), in its first comment on the agreements (July 6, 1942, p. 18), said: "The Argentine Minister of Agriculture, on being interviewed on the subject, stated that Argentina's adherence was more experimental than definite." This statement may be true, as far as it goes, and yet effectually misrepresent the Argentine official attitude. In the absence of a full report of the interview, the anti-agreement bias of this trade journal must be borne in mind.

ments may mean little or nothing if even a single government should be obstructionist, un-co-operative, or merely loath or slow to permit its delegates to reach specific agreement with those of other countries, or if it should ignore or delay compliance with the Council's recommendations. The history of the attempts to reach international agreements on wheat, or to revise and modify those once reached, make it evident that such possibilities must be taken seriously. As the present agreement stands, one country could, if it chose, avoid fulfillment of its conditional obligations without being guilty of violating its formal agreement.

Nevertheless, we expect no great difficulty in obtaining ample donations of wheat in time to meet either wartime or postwar requirements that need to be covered by gifts.<sup>2</sup> At present, in our opinion, the tendency on the part of the general public is to exaggerate the magnitude of such requirements for wheat.

The Agreement provides that the Council "shall, wherever possible, arrange for the distribution of relief wheat through such intergovernmental relief body as may be set up and given general responsibility for the distribution of relief [VI, 4]." Ordinarily, therefore, the Council's duties in respect of relief wheat would end at the point where, and as soon as, it had ordered such wheat turned over to the distributing agency. It is directed to instruct the Executive Committee as follows:

(a) to facilitate the transfer of relief wheat and flour from the national wheat-handling organizations of the contributing Governments to the intergovernmental relief body, (b) to maintain effective liaison between the national wheat-handling and shipping organizations of the contributing Governments and international shipping and transport controls and (c) generally to consult with the intergovernmental relief body regarding all transactions relating to the relief pool. [VI, 8]

The Council may, however, arrange with other appropriate authorities to distribute relief wheat or flour in any "necessitous area"

to which the Council has decided to make such supplies available and in which the intergovernmental body lacks the necessary distributive agency (VI, 4).

It is not surprising to find the following express provision: "Any arrangements for the distribution of relief wheat shall be such as to minimize, so far as the provision of sufficient relief permits, the reduction of the effective demand for wheat on sale [VI, 4]." In applying this rule, however, difficult questions are likely to arise.

The final paragraph of Article VI does not pertain to the relief pool, but may also be considered now adopted. It runs thus:

Should the Council receive, at any time after the completion of the relief to which the provisions of paragraphs 1 to 8 of this Article relate, an appeal for relief wheat or flour from any Government to relieve famine in any area within the jurisdiction of that Government, the Council shall investigate the possibilities of meeting such an appeal and report to the contracting Governments its findings together with its recommendations.

All these relief provisions, as far as they go, appear essentially reasonable. It is well that advance thinking on postwar relief is taking such crystallized form. In itself, and as a precedent, this concrete step is important. Every such step tends to facilitate others, to the end that when the war is won—or even earlier, in parts of the world—relief supplies can be made effectually available with a minimum of delay, disagreement, and fumbling.

Yet the importance of this move can be exaggerated. In the absence of any wheat agreement, International Wheat Council, or specific commitments for relief wheat—unless the war should be protracted until surplus wheat supplies have disappeared—such gifts of wheat as those recently agreed to could be expected to be made quickly; and most of the other arrangements here specified, or a near equivalent, would be among those most readily improvised. Far more important will be agreement to set up the intergovernmental relief body here in contemplation, and the evolution of its organization, program, and specific plans in at least provisional form. Fortunately, there are recent indications of significant progress in these directions.

<sup>2</sup> Had the Council been set up early in 1942, it might have been the medium through which donations for relief shipments to Greece would have been made. Cf. WHEAT STUDIES, September 1942, XIX, 17.

Will such relief commitments, now and later, require further legislative or other official action in some of the five countries before they are ready to be implemented? The British and Canadian Governments, under their parliamentary systems, presumably stand fully committed. The Commonwealth Government in Australia can presumably make future commitments without further legislation, but the political feasibility of so doing cannot now be forecast. We infer that the Argentine Government would feel it necessary to seek general or specific authorization by its legislature before its commitment would be definitive.<sup>3</sup> In the case of the United States, standing legislation permits governmental agencies owning wheat to make it available for relief use, foreign as well as domestic, without being subject to restrictions that apply to feed use and ordinary exports;<sup>4</sup> but it is not clear to us that existing legislation and executive orders fully cover the wheat donations here under discussion.

Up to mid-November, as far as we are aware, no steps have been taken to implement the relief provisions. The official release regarding the August meeting of the Council gives no indication that the matter was discussed, and apparently there has been no occasion to earmark actual wheat for relief.

#### PRODUCTION CONTROL

For the present, as we have seen, the four exporting countries stand committed to "adopt or maintain positive measures to con-

<sup>3</sup> On Jan. 8, 1940 the Argentine government provided by presidential decree for a gift of 50,000 tons of wheat to Finland, in response to a cable from the League of Nations. But this was expressly done because of the urgency of the matter, when the Congress was not in session, and "without prejudice to subsequent action [*pronunciamiento oportuno*] by the Legislative Power." *Boletín Informativo* (National Grain and Elevators Commission, Buenos Aires), Jan. 15, 1940, IV, 6-7, and Feb. 15, 1940, IV, 160.

<sup>4</sup> Agricultural Appropriation Act of July 22, 1942, Public 674.

<sup>5</sup> Article II (3) of the Draft Convention. The first and second paragraphs of this article are among those not yet in effect, and are discussed below, pp. 54-57.

<sup>6</sup> WHEAT STUDIES, September 1942, XIX, 1-2, 20.

<sup>7</sup> See successive annual reports of the Secretary of Agriculture, and Wheeler, *op. cit.*, pp. 96-99.

trol production with the object of minimizing the accumulation of excessive stocks."<sup>5</sup> Both 1942 and prospective 1943 carryovers represent unquestionably "excessive stocks." As we make clear below (p. 51), this is true even by the very liberal standards embodied in Article III of the Draft Convention, which has not come into effect. The stocks are so colossal, indeed, that there is no pressing need to estimate how large the excess actually is. These huge stocks are very costly to store and carry, in terms of the war effort as well as in money terms.<sup>6</sup> Under these circumstances, there is abundant justification for measures in each country not only greatly to expand the outlets for wheat, but also to bring about substantial curtailment of wheat production in 1943, in favor of other crops more urgently needed. Such measures, however, need to include what may be called negative elements, in the sense of modifying existing incentives to overplant or underutilize.

In international commodity discussions United States representatives have for 10 years urged the necessity of production control with agricultural products that tend to be in surplus—latterly coffee and sugar as well as wheat and cotton.<sup>7</sup> It has been implied that we know how to do this, and have been doing it. Actually, in a significant practical sense, we have not yet learned and cannot show the way. Modes of action have been tested, but their vigorous application has been hampered both by legislation and by administrative restraint.

Control of agricultural production has been a cardinal element in American agricultural policy under three Roosevelt administrations, since the first Agricultural Adjustment Act was passed in May 1933. After an interruption due to an adverse decision of the Supreme Court early in 1936, resumption of the policy was effected under the second Agricultural Adjustment Act of February 1938. What were regarded as highly "positive" measures were applied to the crops of 1939-42, with as much increase in intensity as Congress has permitted, and the entire battery has been in force since the middle of 1941. Yet while wheat production has been somewhat influenced, *it has not been controlled,*

even in terms of averages over a period of years.

The sown acreage for the crops of 1939-42 was indeed reduced some 25 per cent below the exceptionally high levels of 1937 and 1938, and even by 34 per cent if 1942 be compared with 1937. Yet the bumper crop of 1942 (as now estimated) exceeded the average of 1937 and 1938 crops by 80 million bushels (8.8 per cent), and the 1939-42 crops averaged less than those of 1937 and 1938 by only 31 million bushels (3.4 per cent). Between 1939 and 1942 the carryover of United States wheat rose from 252 million bushels to 633 million. Despite the maximum cut-price disposition for feed and industrial uses that Congress as yet permits, the carryover seems likely to rise above 800 million bushels in 1943.

When, in the spring of 1938, it became evident that application of the formula embodied in the new Agricultural Adjustment Act would require a really drastic cut in wheat acreage, by something like 50 per cent, to around 40 million acres, Congress amended the law to prevent fixing the aggregate allotment below 55 million acres.<sup>8</sup> The actual allotment was put at this level for 1939, and also for 1942.<sup>9</sup> Despite extraordinary additions to stocks, the legal limit remains unchanged. Although Secretary Wickard has repeatedly recognized the uneconomic nature of this minimum,<sup>10</sup> he has not yet recommended lowering or abolishing it.

On June 10, 1942, before the interim international agreement went into effect, the United States wheat acreage allotment for 1943 was announced at the same minimum as in the preceding year. If the actual sown acreage should fall below this, under the influence of weather conditions (such as had prevailed in the fall of 1941), the competition of war crops, and encouragement from the Department of Agriculture, it will probably be by a small margin, as in 1942;<sup>11</sup> and farmers will receive the conservation and parity payments on the basis of their assigned normal yield on their *allotted* acreages.

With net contraction of acreage thus limited, the contemplated degree of curtailment of wheat production, to say nothing of its con-

trol, has not been achieved. This is partly because the yield per acre is due to nature, and beyond man's control. In 1934 and 1935, the AAA secured much less contraction of wheat acreage than it sought, but severe and widespread droughts, and rust in 1935, cut the outturn far below what had been "planned."<sup>12</sup> In 1941 and 1942, by contrast, exceptionally high yields per acre sown resulted in embarrassingly large harvests.

In part the yield improvement of very recent years is due to success in coping with stem rust. In several years in the past four decades (notably 1904, 1916, 1935), epidemics

<sup>8</sup> WHEAT STUDIES, May 1938, XIV, 347-48, and September 1938, XV, 22-23.

<sup>9</sup> *Ibid.*, September 1942, XIX, 5, 24. The allotment for 1940, announced May 16, 1939, was 62 million acres. The increase from the 1939 minimum of 55 million acres was officially ascribed to "a reduction in prospective wheat supplies for 1939"—a reduction that proved only a little less than was forecast. The same allotment for 1941 was announced May 14, 1940, on the basis of forecasts of the 1940 carryover and crop. Their sum proved too low by 131 million bushels. Had the true size of the coming crop been realized, the 1941 quota might have been reduced to 55 million acres instead of kept at 62 million. U.S. Dept. Agr. Press Releases 1920-39, May 16, 1939, and 2061-40, May 14, 1940.

<sup>10</sup> For example, he said in his 1941 report (p. 102):

"In AAA wheat planning the announced purpose is to adjust the acreage allotment so that with the prospective carry-over it will provide wheat enough for normal domestic consumption, normal exports, and at least a 30-percent reserve. The 55 million acre allotment minimum, however, is above the level necessary to provide this objective. Hence, above-normal reserves will tend to be a part of our wheat situation until the world situation again provides a larger export market, or unless the yields run below the average for a period of years. Under present conditions, of course, an ample carry-over of wheat is desirable, because we may have a vital use for it both during and after the war—it may be the means of life and hope to countless millions in both Europe and Asia."

No serious attempt seems to have been made to ascertain the volume of wheat that should be carried into the postwar period, either in this country or in the four chief exporting countries combined.

<sup>11</sup> *Wheat Situation* (U.S. Dept. Agr.), September 1942, p. 5. In many of the less important wheat states, particularly those producing soft red winters south of the Ohio and east of the Mississippi Rivers, state acreage goals are usually exceeded. WHEAT STUDIES, September 1942, XIX, 24. One reason is that many small farmers are not subject to the restriction program.

<sup>12</sup> J. S. Davis, *Wheat and the AAA*, pp. 96-104, 129-34, 347-53.

of this disease wreaked havoc with the crop.<sup>13</sup> In 1942 "weather and crop conditions were ideal" for its development, but except "in the Virginias . . . and in a few localized areas in other States, losses from this disease did not exceed a trace." This is officially attributed (1) to the eradication, since 1918, of more than 300 million barberry bushes, host plants for the fungus; and (2) to the fact that "improved varieties of grain, developed by plant breeders for resistance to many forms of the disease, are widely grown in place of varieties more susceptible to attack by stem rust."<sup>14</sup>

Other factors have contributed to defeat the ostensible objective of controlling production by restricting acreage. First, farm by farm, though not region by region, the acreage restrictions in practice have tended to be more or less selective; on the whole, farmers have kept in wheat the fields that are more productive, won approved compliance by eliminating less promising stands after seeding, and so on.<sup>15</sup> Second, under legislation dating from early 1936, farmers have been paid for soil-conservation practices making for long-run improvement in fertility, and it would be surprising if these had had no favorable effect on wheat yields by 1941 or 1942. Third, by a combination of federal loans on wheat

on increasingly generous terms, market intervention by certain government agencies, the federally subsidized crop-insurance program, and federal cash payments unrelated to the size of the crop or the sale price realized, growers have been relieved of various risks previously associated with wheat production. In some areas (including a portion of the Pacific Northwest) these have stimulated putting new lands under wheat while older lands were restricted by allotments. Many farmers have avoided cutting their acreage much below their allotments for fear of having their subsequent allotments reduced.

Canada has had in force for two years positive measures aimed at reducing wheat production, as yet with equally limited results. For the 1941 crop, marketings were restricted to a total of 230 million bushels for all Canada, and delivery quotas were specified at so many bushels per authorized acre sown—the "authorized acreage" being 65 per cent of that sown in 1940. In addition, per acre subsidies were paid for increased acreage in summer fallow (\$4.00) or sown to rye, coarse grains, or grass (\$2.00), which replaced the acreage taken out of wheat. For the 1942 crop, the upper limit on marketings was raised to 280 million bushels for western Canada, and none established for eastern Canada, but marketing quotas were in bushels per authorized acre on the same basis as in 1941. A bonus of \$2.00 per acre was paid on wheat acreage sown to oats, barley, rye, peas, corn, and grasses, or put in summer fallow.<sup>16</sup> Nevertheless, the sown wheat acreage of Canada is now estimated, for 1941 and 1942 respectively, at 76–78 and 75 per cent of that in 1940.<sup>17</sup> This is well above the "authorized acreage." Record yields in 1942 brought a bumper crop. In western Canada, as in the United States, much wider use of Thatcher and other rust-resistant wheats was partly responsible for this result, as for the large outturns in 1939 and 1940.<sup>18</sup> But larger factors were favorable weather and the use of a greater summer-fallow area for seeding the crop.

In Australia, production-control machinery was introduced under the Wheat Stabilisation Plan adopted in November 1940 and designed to continue till one year after the end of hos-

<sup>13</sup> WHEAT STUDIES, September 1935, XII, 1–6, and December 1936, XIII, 148–49.

<sup>14</sup> U.S. Dept. Agr. Press Release 645-43, Sept. 30, 1942. Thatcher is the most important new variety of spring wheat, in both the United States and Canada.

<sup>15</sup> A major reason for repeated actuarial losses in the wheat crop insurance program has been corresponding adverse selection of risks at the farmers' option. J. C. Clendenin, "Federal Crop Insurance in Operation," WHEAT STUDIES, March 1942, XVIII, 251.

<sup>16</sup> Canada Dept. Agr. Marketing Service, *Agricultural Marketing Legislation*, pp. 8–9; *Monthly Review of the Wheat Situation* (Canada Dom. Bur. Stat., Ottawa), March 1941, pp. 2–3, April 1941, p. 2, and Mar. 27, 1942, pp. 14–15; Order-in-Council P.C. 3047, Apr. 30, 1941, amended by P.C. 3231.

<sup>17</sup> Standing official data yield the following percentages of areas reported sown in 1940:

Year	Mani- toba	Saskat- chewan	Al- berta	Prairie Prov- inces	Other Prov- inces	Total
1941 . . . . .	76.9	78.3	76.8	77.7	84.7	77.9
1941 (census)	69.5	78.5	74.8	76.2	78.1	76.2
1942 . . . . .	55.0	79.3	73.5	74.4	94.9	75.1

<sup>18</sup> WHEAT STUDIES, December 1940, XVII, 149–50.

tilities. In February 1941 the Wheat Industry Stabilisation Board announced the policy for 1941 to enforce, by a system of individual licenses, restraints on expansion of acreage beyond normal plantings of recent years. Penalties were imposed for exceeding the licensed acreage. In 1942 the system was continued; growers in Western Australia were required to reduce their sown acreage by about 1 million acres to two-thirds of their average in 1937-40; and in all Australia, licenses were issued for sowing 10,951,000 acres, the lowest area sown since 1925. Good yields in 1941 nevertheless brought the marketed crop about 10 per cent above the volume (140 million bushels) on which a price guarantee was given, and it now seems probable that the 1942 crop will not fall much below that of 1941.<sup>19</sup>

In Argentina, decrees issued on November 20, 1940 authorized the Grain Regulating Board to require growers from whom it bought grains at minimum prices to agree not to increase their acreage under wheat for 1941, and also to agree, if later so ordered, to reduce their acreage by not more than 10 per cent.<sup>20</sup> Though both in 1941 and 1942 government agents urged Argentine wheat growers to reduce their sown acreage, no reduction was imposed. The acreage actually sown for 1941 was somewhat higher than in 1939 and 1940, while that for 1942 was below that in 1941 by 1¾ million acres (under 10 per cent), chiefly because of adverse weather in the later part of the sowing season.<sup>21</sup> The new crop seems likely to be nearly as large as in 1941.

These facts were almost all either known to or ascertainable by the International Wheat Council, when it first met in August 1942.

The Council discussed the positive measures contemplated to control production in 1943 with the object of minimizing the accumulation of excessive stocks and instructed the Secretariat to

<sup>19</sup> On this paragraph see *ibid.*, December 1941, XVIII, 122-23, and September 1942, XIX, 14-16. For earlier data, see J. S. Davis, "Bulk Handling in Australia," *ibid.*, April 1940, XVI, 362.

<sup>20</sup> *Boletín Informativo*, Dec. 25, 1940, pp. 1030-31.

<sup>21</sup> WHEAT STUDIES, December 1941, XVIII, 123, 179, and September 1942, XIX, 14. The third estimate of acreage sown for 1942 is 16,309,000 acres.

<sup>22</sup> *Department of State Bulletin*, Aug. 8, 1942, p. 689.

prepare, under the direction of the Executive Committee, a comprehensive report on the measures being employed in each country to control production. The Council took note of recent increases in yields per acre in several producing areas, and the Executive Committee was asked to consider the influences bearing on any trends in this connection.<sup>22</sup>

These reports will doubtless be presented at the new meeting scheduled for January 1943. By that time, however, the winter-wheat acreage will have been sown in the United States. It would appear that the Council was not prepared to seize the first opportunity to make a joint recommendation as to further effective restraints on the acreage sown for 1943, and any such recommendations are likely to be too late to influence the size of that crop.

#### ADMINISTRATION AND FINANCE

Most of the provisions of the Draft Convention which relate to administration and finance were brought into effect by the Memorandum of Agreement and the interpretations embodied in the Minutes of the Final Session of the Washington Wheat Meeting.

The central administrative body is an International Wheat Council, to consist "of one or more delegates of each contracting Government [VII, 1]." Nothing is said about the basis of selection of delegates or their term of service, remuneration, expenses, etc. Each government is left free to decide as it pleases, and to change its mind and its delegates as often as it may choose. Accordingly, though designed as a continuing body, the Council will not necessarily be a stable body. It might conceivably be made up wholly or in part of individuals otherwise unconnected with the several governments. As initially constituted, however, the Council is made up entirely of officials in the service of the five governments, permanently or temporarily resident in Washington, Ottawa, or London. All but two (E. Twentyman and J. J. Deutsch), moreover, were selected from the delegates who participated in the preparatory or principal sessions of the Washington Wheat Meeting, and therefore had a voice in drafting the agreement.

Of the 14 Council delegates at the outset, there are two each from Argentina, Australia, and the United Kingdom, and four each from



Canada and the United States. Those of highest rank are the United States Under Secretary of Agriculture (Paul Appleby), a British Minister to the United States (Noel Hall), the Minister-Counselor of the Canadian Legation, Washington, D.C. (Lester B. Pearson), and the Assistant Secretary to the Australian Department of Commerce (E. McCarthy). Argentina is represented by the commercial counselors to the Argentine Embassies in London and Washington (A. M. Viacava and M. E. Quirno-Lavalle). The second Australian delegate is the Economic Adviser to the Australian government in London (F. L. McDougall). The second British delegate is with the British Food Mission to the United States (E. Twentyman). Additional Canadian delegates are from the Marketing Services of the Department of Agriculture (Director A. M. Shaw), the Agricultural Branch of the Dominion Bureau of Statistics (Chief C. F. Wilson), and the Department of External Affairs (Special Wartime Assistant J. J. Deutsch). Additional United States delegates are from the Office of Foreign Agricultural Relations (Director L. A. Wheeler), the Western Division of the Agricultural Adjustment Administration (Director N. E. Dodd), and the Division of Commercial Policy and Agreements, Department of State (Assistant Chief R. M. Carr). In effect, for the time being, the Council is a large intergovernmental committee whose members have other pressing duties.

The Draft Convention provides: "The seat of the Council shall be in London unless the Council should otherwise determine [VII, 6]." In accordance with an understanding expressed in the minutes of the final session of the Washington Wheat Meeting, however, the seat is to be in Washington for the duration of the Memorandum of Agreement, "unless the Council should otherwise determine." There it first met on August 3-5, 1942. In accordance with the provision that regular meetings shall be held in January and August of each year (VII, 7), the next meeting is scheduled for January 1943. Special meetings may be convened by the chairman on request "(a) by the Executive Committee or (b) by the delegates of five contracting Governments [VII, 7]." Inoperative for the present is an-

other clause: "(c) by the delegates of contracting Governments with a total of not less than — votes." Other provisions with respect to meetings merit quotation without comment.

Notices of all meetings shall be dispatched so as to ensure receipt by delegations of contracting Governments at least fourteen days in advance of the date fixed for the meeting. [VII, 8]

Any contracting Government may designate the delegation of any other contracting Government to represent it and to vote on its behalf at any meeting of the Council or on any particular question. The terms of any such delegation of authority shall be communicated in writing by the delegating Government to the Chairman of the Council. [VII, 9]

The Council may take decisions, without holding a meeting, by correspondence between the Chairman and the delegations of the contracting Governments, unless any delegation objects. Any decisions so taken shall be communicated forthwith to all the delegations and shall be recorded in the Minutes of the next meeting of the Council. [VII, 10]

The Memorandum of Agreement specifies (paragraph 7):

In taking any decisions under this Memorandum and the arrangements of the Draft Convention which it brings into operation each of the five countries will have one vote and a two-thirds majority will be required for decision except as otherwise provided herein.

The two instances in which unanimity is required are mentioned below (p. 40). We infer, however, that a two-thirds majority of five actually means four-fifths.

The Council has authority to "elect, for such periods and upon such conditions as it may determine, a Chairman and a Vice Chairman, who need not be delegates of contracting Governments [VII, 4]," and to "appoint a Secretary and such other employees as it considers necessary and determine their powers, duties, compensation and duration of employment [VII, 5]." At the organization meeting, Mr. Appleby, who had been chairman of the principal sessions of the Washington Wheat Meeting, was elected chairman and Mr. Cairns, who had been secretary of both sessions, was appointed secretary of the Council.

Under discretionary authority granted by Article VIII of the Draft Convention, the Council chose immediately to establish an

Executive Committee to "work under its general direction [VIII, 1]." As actually set up, this committee consists of one delegate from each of the five governments. According to the Draft Convention, it "may be convened at any time by its Chairman [VIII, 5]," and shall reach its decisions "by a simple majority of the total votes held by its members [VIII, 6]." It is charged not only with specific duties but also "with the general duty of keeping under review the working of the Agreement and of reporting to the Council from time to time on the manner in which the provisions of the Agreement are being carried out [VIII, 4]." Though the chairman of the Executive Committee "need not be a delegate of a contracting Government to the Council or a member of the Committee [VIII, 2]," Mr. Wheeler was appointed to this post. Mr. Cairns automatically became secretary of this Committee (VIII, 3). The other members are Messrs. McCarthy, Quirno-Lavalle, Twentyman, and Wilson. For what periods and under what conditions such elections and appointments were made has not been disclosed.

Presumably the Council will eventually, when legal formalities permit, "arrange to take over the assets and liabilities of the Wheat Advisory Committee [see p. 26] upon the dissolution of that body on such terms as may be agreed with it [VII, 18]." Meanwhile, the WAC retains a nominal existence.

In the Council are vested not only powers specifically assigned to it but others necessary for effectively carrying out the provisions of the agreement (VII, 2). By unanimous vote it may "delegate the exercise of any of its powers or functions to such persons or bodies as it thinks fit [VII, 3]."

With respect to finance, we assume that the provision relating to equal votes of the five contracting governments carries with it equal sharing of the expenses of the Council in administering the agreements (X, 1), pending accessions by additional governments. We infer that the Council has approved a budget for the year ending August 1, 1943, and assessed the contracting governments for their respective shares (X, 2). At the January meeting, similar action will presumably be taken with respect to the following fiscal year.

In due course the Council will doubtless publish the audited statements specified (X, 5).

Consideration shall be given by each contracting Government to the possibility of according to the funds of the Council and to the salaries paid by the Council to its employees who are nationals of other countries treatment in respect of taxation and of foreign exchange control no less favourable than that accorded by such Government to the funds of any other Government and to salaries paid by any other Government to any of its accredited representatives who are its nationals. [X, 6]

Certain provisions that seem clearly not yet applicable, even if nominally in effect, are mentioned below (pp. 45, 52, 58, 60, 64). Others concerning which we are in doubt are the following:

The Council shall ascertain and make public the carry-over of wheat in Argentina, Australia, Canada and the United States of America at the end of each of their respective crop-years. [VII, 13]

The Council shall, upon the request of any contracting Government of an exporting country, investigate the possibility of meeting the needs of that country for wheat storage facilities to maintain in a good state of preservation such stocks of wheat as may accumulate prior to the coming into force of Article IV. The Council shall report to the contracting Governments its findings together with its recommendations. [VII, 14]

The Council shall make at the earliest practicable date all possible arrangements with international shipping controls to facilitate the exportation of wheat. [VII, 11]

There is no public indication that action has yet been taken on any of these matters. They will presumably become important if and when the decision is taken to bring into effect the main provisions of the Draft Convention. The first paragraph of Article IX, we are surprised to note, is to come into force only when these main provisions become operative. It runs thus:

Each contracting Government shall make to the Council such reports as the Council may from time to time request on the action which that Government has taken to carry out the provisions of this Agreement. [IX, 1]

The following paragraphs we regard as of large potential importance:

The Council shall publish an annual report on the operation of the Agreement which shall in-

clude a summary of relevant statistics and such other material as the Council may determine. The Council may authorize the publication of such other reports as it considers appropriate. Reports shall be published in English and in any other languages that the Council may determine. [VII, 16]

The Council shall instruct the Executive Committee (a) to cooperate with bodies engaged in the task of improving human nutrition, (b) to investigate the possibilities of increasing wheat consumption and (c) to examine and report upon any proposals made to the Council by any contracting Government designed to facilitate the attainment of the objectives of the Agreement. [VII, 12]

Item c in the last quoted paragraph introduces an element of potential flexibility that we consider vital to the effective adaptation of the agreements to changing conditions.

In view of the possibility of differences of interpretation that we discern, and others that may subsequently arise, we attach special importance to paragraph 7 of the Minutes of the Final Session of the Washington Wheat Meeting, which constitute part of the agreement now in force:

The Minutes of the Washington Wheat Meeting, together with the Reports of its Committees, will be available for the information of the Council during the period in which the Memorandum of Agreement is in force.

These confidential documents presumably clarify the intent of the framers of the agreements on some points on which the terms themselves appear obscure.

#### CONTINGENT AGREEMENTS

Four additional understandings incorporated in the Memorandum of Agreement adopted require future action and/or further agreement before they will come into effect:

1. The five countries agreed that a satisfactory solution of the international wheat problem requires an international wheat agreement, and that to this end "the United States, so soon as after consultation with other countries it deems the time propitious, should convene a wheat conference of the nations having a substantial interest in international trade in wheat which are willing to participate." On this matter the responsibility for deciding

when the time is ripe evidently rests with the United States Government.

2. It was agreed that the Draft Convention resulting from the Washington Wheat Meeting, not itself adopted in full by the countries now participating, should be published for submission to such a future conference—as was done—"and to provide a basis for such interim measures as may be found necessary." This point we have already touched upon, and below (p. 75) we venture to urge that the International Wheat Council may well go beyond the letter of its functions to mature ideas for submission to the eventual conference and to propose further interim measures.

3. In the event that no comprehensive agreement has emerged from such a broader international conference prior to the cessation of hostilities, the five countries agree that pending such action "the arrangements described in the attached Draft Convention which relate to the control of production, stocks and exports of wheat and to the administration thereof will be brought into effect among themselves" at a date to be unanimously agreed and announced within six months after the cessation of hostilities.

4. The price-control provisions of the Draft Convention are to come into effect prior to the conclusion of the contemplated conference, "on the cessation of hostilities or such earlier date as they may agree," provided the price determinations are "made by unanimous consent"; and in the absence of such action, for six months following the cessation of hostilities export prices are to be maintained at levels equivalent to "the last price negotiated by the United Kingdom for a bulk purchase of wheat from the principal country of supply"—which the Minutes interpret to mean Canada.

With regard to the third and fourth points, a few additional observations are pertinent. For both, the rule of unanimity is crucial. Any one government holds the veto power, and might nullify the provisions entirely. Under the agreed interpretation,<sup>23</sup> however, the words "cessation of hostilities" mean "the earliest date at which none of the five coun-

<sup>23</sup> Minutes of the Final Session of the Washington Wheat Meeting, paragraph 4.

tries is engaged in substantial belligerent operations." At present, with the war raging all over the world, and unlikely to end everywhere at once, this date seems remote. But since the possibility of a sudden ending of the war must be reckoned with, the time for maturer consideration of these provisions may not be excessive. As matters stand, unanimous agreement by representatives of the five countries on the Council could bring practically the entire Draft Convention into operation among these countries for a period of not more than two years.

The concluding paragraph of the Memorandum of Agreement states:

The provisions of this Memorandum will be superseded by any agreement reached at the proposed wheat conference or by any arrangements which the five countries and other interested countries may make to deal with the period pending such a conference. In any event they are to terminate two years from the cessation of hostilities.

The provision listed above as fourth provides as reasonable an alternative price commitment as can perhaps be expected now, but it cannot be regarded as a safe choice. In effect, it puts on Canada and Great Britain the burden of determining, before the war ends, what prices shall be charged for export wheat from other exporting countries to various importing countries, in the ensuing half-year. If it should merely mean that whatever contract the two countries happened to make shortly before the armistice, without reference to the cessation of hostilities, the price would be unlikely to be conducive to the most rapid flow of non-relief wheat to importing countries. Already, British purchases from Canada are made on terms that reflect considerations quite different from those that would be pertinent after hostilities end. It would be better if the last bulk purchase were made on terms that took into account these broader objectives, including the freest possible movement out of surplus export stocks while the needs for import wheat, relief and non-relief, were at their peak. Conceivably, this sort of decision might be made more wisely by Canada and Britain jointly than by the International Wheat Council.

In the four years over which work on the present international wheat agreements extended, and even in the 14 months since the earlier draft of the Draft Convention emerged from the summer sessions of the Washington Wheat Meeting, the wheat situation has greatly changed, and still greater changes have taken place in the international position and outlook. It is hardly surprising that the Draft Convention, as eventually published, should not seem altogether in keeping with the future as it looks in November 1942. In one respect, what seems to us a certain confusion of mind is displayed.

The primary objective was to devise a scheme deemed appropriate for a peacetime world, with certain minor modifications for the period of hostilities and others for the transition from active warfare to peace. Most of the official comments on the Draft Convention speak of it in these terms. For the most part, therefore, we too discuss it primarily with reference to its possible functioning in the peace period following the postwar transition. Actually, however, both the Convention itself and the accompanying agreements reflect the expectation that some such convention will come into operation near the close of the war proper, and run for two to four years thereafter. If these expectations should materialize, the comprehensive agreement would apply during, and could hardly last through, the postwar transition period. In our judgment, an international agreement appropriate to the transition period must be quite different from one appropriate to the subsequent period of peace.

It now seems probable that the war will end with large stocks of wheat in the hands of government agencies in two or more, if not all, of the five countries participating in the present agreement. For the present, moreover, it seems reasonable to assume that the war will end before surplus wheat stocks are exhausted. Conceivably, however, the war may be long drawn out, large amounts of surplus wheat may be drained off to feed and industrial uses, diversion of manpower may limit new production, and adverse weather may cut yields. If such changes should occur, any agreement drafted on the present as-

sumptions will need to be modified to meet the new situation.

It seems generally agreed that, after the last war, decontrol was too hastily effected. It is greatly to be desired that, so long as governmental control agencies continue to function after hostilities end, they should operate in a harmonious manner not only among themselves but also in the larger interests of the restoration of the world economy to a new normal. The terms of such harmonious policy will need to be formulated, at least provisionally, well in advance of the armistice.

In formulating such terms, for one basic commodity, the International Wheat Council has potentially an important function to perform. Essential to the discharge of this func-

tion, however, would be representatives of the Wheat Boards of Canada, Australia, and Argentina, the Cereal Imports Branch of the British Ministry of Food, and whatever then corresponds to the Commodity Credit Corporation and the Federal Surplus Commodities Corporation in this country. Draft agreements so reached ought to be technically feasible, but should naturally be subject to approval by government agencies concerned with over-all international policy. In our judgment, such agreements should be definitely for a transition period, and should in no way preclude, interfere with, or render difficult the orderly retirement of these wartime agencies from the ownership or control of wheat.

### III. THE DRAFT CONVENTION

With the exceptions already noted, the Draft Convention is at present essentially a fairly detailed plan for consideration by a future international wheat conference at which, it is contemplated, a larger number of wheat-importing and -exporting countries will be represented and will adhere to some such agreement.

The distinctive features of the scheme presented in the Draft Convention are suggested by four phrases: *reserve stocks*, *production control*, *export quotas*, and *price regulation*. (1) It is planned that carryover stocks in each of the four chief exporting countries shall ordinarily be held within a range, the minimum of which is much above the level hitherto regarded as normal, and the maximum of which is above the peaks reached in the two decades 1919-39. (2) Production-control measures are contemplated such as will keep carryovers within this range, or bring them back within it if and when they go outside it. (3) Export quotas are to be assigned according to certain formulas, to apportion shares in prospective exports on a predetermined basis largely independent of the changing current position. (4) Basic minimum and maximum prices c.i.f. United Kingdom ports are to be fixed and changed only at annual intervals; and c.i.f. and/or f.o.b. equivalents thereto, "for the various

wheats sold in world markets," are also to be set to govern transactions in international trade. These four features are discussed at some length in Sections IV-VI.

#### DIVERGENT PHILOSOPHIES

The first three paragraphs of the Preamble to the Draft Convention set forth briefly the philosophy underlying its main provisions. To each point in the following summary we append brief comments of our own.

The "accumulation of wheat surpluses threatens to result in grave post-war difficulties for the economies of the [surplus-]producing countries and hence, because of the interdependence of nations, for the economies of all countries." This view may be accepted without reservation. It affords ample justification for serious efforts to avert the danger.

In the absence of "appropriate action," such accumulations of wheat surplus may be expected to recur. This, of course, is true; but the troublesome question persists: What is truly appropriate action?

The solution of the problem is said to be "an essential part of any program of world economic reconstruction." It is perhaps going too far to assert that no such "program" can succeed unless it provides for a workable solution of wheat-surplus problems. But the desirability of such a solution, in harmony

with plans for world economic reconstruction, is to be granted. It is nevertheless important that neither this solution, nor an attempted one, should be allowed to interfere with world reconstruction on a durable basis.

Such solution is said to call for "cooperative action by all countries concerned in international trade in wheat." If this were true, the "solution" would be hopeless except under a world dictator. No such comprehensive "cooperative action" can be expected to be achieved without the use of overwhelming force—military, political, and/or economic. Within reason, of course, the more comprehensive the co-operation the better. It would seem clearly desirable to have a draft agreement that will have a wide appeal to interested countries. It is well to provide, as Article XIV does, for ready accessions to the agreement by governments which do not become participants at the outset. As this implies, however, it is by no means essential to have the pact all-inclusive, or to make it so by resort to "compulsory co-operation." Rather it is necessary to assume that numerous countries, including many with only minor interests at stake and possibly some with "substantial" interests, will not choose to accede.

"Cooperative action is also necessary," it is asserted, "to meet the need for relief in the war-stricken areas of the world by the supply and distribution of gifts of wheat." True, but such objectives might be adequately achieved, in co-operation with a suitable international relief body, by only a few donor countries, even in the absence of a wheat agreement among them. Quite as important, however, will be the ready availability of wheat for purchase at prices reflecting its abundance and possible for poor but proud nations to pay. Of this, unfortunately, the Draft Convention gives no assurance.

Both national and international measures are involved, according to the framers' philosophy, for three types of control that we venture to set off from one another:

(a) "for the regulation of wheat production in both exporting and importing countries,"

(b) "for the orderly distribution of wheat and flour in domestic and international trade at such

prices as are fair to consumers and provide a reasonable remuneration to producers," and

(c) "for the maintenance of world supplies which shall be at all times ample for the needs of consumers without being so excessive as to create a world burden of unwanted surpluses."

Here the philosophy becomes at once more specific and more vague, and seems to call for plans so overambitious as to court failure. We see no prospect that *international* measures can be agreed upon and applied in control of production, marketing, and stocks except in very limited degree. For the most part, national measures in conformity with some broad plan acceptable to several nations are as much as can be hoped for. Eventually, a world authority may conceivably grapple with such tasks, as the United States Congress has latterly undertaken to grapple with them in this country; but nothing short of this can be expected to regulate national wheat production, domestic trade in wheat, or the reserves within a country. On such matters it is surely unrealistic to expect an International Wheat Council to go far beyond recommendations to the several governments, whatever it may undertake in the way of export regulation. If the United States wheat program, designed with this general philosophy, could be called truly successful, there might be sounder reason for undertaking to apply it on a world scale; but in various important particulars it has conspicuously failed.

Moreover, it is implied that means of regulating wheat production are well known; that "orderly distribution" in international trade connotes more or less stable proportions of individual countries' exports in the total; that domestic and export prices "fair to consumers" and providing "a reasonable remuneration to producers" are determinable; that wheat prices should and could be kept at such levels; that an agreement could readily be reached on the volume of world supplies that would be ample but not excessive; that the costs and consequences of maintaining buffer reserves can be distributed in such ways as to be accepted as equitable to all concerned; and that the presence of wheat in abundance would insure adequate protection of consumer interests. We venture to question the reliability of these assumptions.

Paragraphs 4-6 of the Preamble express an essentially different philosophy, which we do not find reflected in the body of the Convention. The reiteration of certain ideas manifests the influence of certain draftsmen, but that influence does not reappear in the main provisions.

Sound criticisms of past and current practices are implied in the following assertion:

The benefits of abundant world supplies of wheat cannot be assured to consumers unless there is a substantial decrease in uneconomic incentives to high-cost production, a lowering of barriers to world trade and the charging of prices to consumers not substantially higher than the price of wheat in international trade.

So far as it goes, this deserves whole-hearted endorsement. The existence and recurrence of world wheat surpluses in the 1930's was largely due (1) to official stimulation of high-cost production of wheat in many countries, most notably in Europe; (2) to trade barriers of many kinds, which restricted imports of cheap wheat and made it dear despite low export prices; (3) to trade barriers in wheat-exporting countries, which restricted the volume of their imports of commodities and services through which wheat-importing countries might otherwise have acquired purchasing power for imports of foodstuffs; and (4) to divers practices, which came to be common in importing and exporting countries alike, of holding domestic prices of wheat to millers (and hence to consumers) "substantially higher than the price of wheat in international trade." All these made for increased production, reduced trade, and decreased consumption of wheat. The greatest contribution to a durable solution of the wheat-surplus problem would be made if national policies could be radically changed in these respects.

The drafters of this paragraph doubtless had chiefly in mind Continental European countries. Batteries of customs tariffs, import quotas, milling regulations, exchange controls, and other devices presented complex and changing barriers, and these were supplemented by subsidies of various kinds. But the language has broader applications. In the United States, the farm program gave incentives to relatively high-cost wheat production,

though we are unable to determine its net effect on average costs. Despite the moderate advances made under the Reciprocal Trade Agreements program, the United States has continued conspicuous for its barriers to imports—even of wheat, when our home production was short—and has latterly had resort to import quotas. At least three of the parties to the present agreement (United Kingdom, United States, and Australia) have maintained domestic prices of wheat and/or flour above levels at which wheat moved into or out of these countries.

Unfortunately, we find nothing in the substantive provisions of the Draft Convention that seems directed against the practices here condemned by implication, or calculated to bring about their elimination or replacement by sounder practices. The price-control provisions, in particular, might conceivably have been so written, but were not. Instead, the proposed combination of export quotas and price regulation can be expected to prove fresh barriers to the free flow of trade, to what degree neither we nor the drafters can safely predict. Except for the relief provisions, we find nothing in the agreement that would insure putting a vast wheat surplus to work.

While these opportunities were passed by, it is pertinent to observe that the article on Production Control is "to be expanded, when further international consideration of the subject is possible, to include provisions for production control in other exporting countries and in importing countries." This is fully in keeping with the philosophy of thoroughgoing regulation already discussed, but rests on the doubtful assumption that such control of production will work.

Constructive ideas are embodied in the last two paragraphs of the Preamble:

In many countries the standard of living would be improved by increasing the consumption of wheat through a lowering of prices. In all countries the standard of living would be improved by stimulating the consumption of foods rich in vitamins, proteins and minerals. The increased production of such foods would offer a more valuable use for land which has at times been used uneconomically for high-cost production of wheat.

Producers of an international commodity such as wheat are directly affected by standards of living throughout the world, by international purchasing power and by prevailing policies and practices affecting international trade generally. There can be no basic solution of the problem of export surpluses without a general reduction of import barriers and no measure should be taken or maintained which has the effect of retarding such reduction or of preventing in any way the fullest possible development of international trade.

Here again, however, are good preachments that find meager reflection in the substance of the Draft Convention. Indeed, the export-quota and price-control provisions strike us as contrary to both letter and spirit of the last sentence above quoted. The nearest approach to specific follow-up lies in Article VII, 12:

The Council shall instruct the Executive Committee (a) to cooperate with bodies engaged in the task of improving human nutrition, (b) to investigate the possibilities of increasing wheat consumption and (c) to examine and report upon any proposals made to the Council by any contracting Government designed to facilitate the attainment of the objectives of the Agreement.

We hope that the execution of these provisions, and the formulation and execution of additional ones, will be dominated by this spirit rather than by the philosophy of restriction, regulation, and control that otherwise seems to pervade the Draft Convention.

Article I partially duplicates the latter part of the Preamble, but goes somewhat beyond it in stating broader principles of policy that we consider excellent. We infer that it was drafted with special care, and designed for inclusion, with suitable minor modifications, in other commodity agreements. This article on Expansion of Trade, it must be noted, is one of several that are not to be brought into effect by any of the interim or contingent agreements. It runs thus:

The contracting Governments agree that an essential element of a solution of the world wheat problem is that consumers should have the opportunity and means of increasing their purchases of wheat from areas which are equipped to produce it economically. They agree that such opportunity and means depend not only on the lowering of barriers to the importation of wheat but also on making available to wheat importing countries increased outlets for the

exportation of goods which they in turn are equipped to produce economically. They agree that this requires the adoption and pursuit of national and international policies aimed at a fuller and more efficient use among nations of human and natural resources and thereby a world-wide expansion of purchasing power.

Recognizing therefore that much that is called for transcends the scope of a wheat agreement and requires action on a broad international basis, but that much also can be accomplished by national measures and by agreements with each other and with other countries, the contracting Governments undertake to further in every way possible the attainment of the foregoing objectives.

The Council shall from time to time submit to the contracting Governments a review of international trade in wheat and invite them to consider, in the light of the foregoing, what measures may be adopted for the expansion of such trade.

These assertions are in full harmony with the provisions of the Atlantic Charter, now accepted by 30 governments, with its reference to "access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity." They are in like harmony with the basic pronouncements of policy embodied in Article VII of the numerous Mutual-Aid Agreements beginning with the one signed by the United States and the United Kingdom on February 23, 1942.<sup>1</sup> They are consistent with a long series of utterances by Secretary Hull, whose statesmanlike leadership is partly responsible for them. Within the past year there has been an impressive series of important addresses by American and British statesmen sounding these and similar notes.

In his radio address of July 23, 1942, Mr. Hull may have obliquely adverted to the wheat agreements recently approved when he said, as if by way of exception: "There may be need for some special trade arrangement and for international agreements to handle difficult surplus problems and to meet situations in special areas."<sup>2</sup> It is reasonable to assume that the State Department views the Draft Convention as one of these, and interprets its provisions as in harmony with the principles laid down in Article I. Our study of the Convention raises doubts as to whether

<sup>1</sup> *Department of State Bulletin*, Feb. 28, 1942, p. 192.

<sup>2</sup> *Ibid.*, July 25, 1942, p. 646.



it would in fact bear out this intention, and as to whether it provides an effective mode of handling "difficult surplus problems."

#### MISCELLANEOUS PROVISIONS

The provisions regarding the relief pool, administration, finance, and reports are discussed partly in Section II and partly in Sections IV-VI. Here a few additional comments on the Council are pertinent.

For the tasks in contemplation, an International Wheat Council consisting of one or more delegates of numerous contracting governments would be a large and relatively unwieldy body, more suitable for "legislation" than for administration. As an *administrative* body, it could not be expected to function well. This would be especially true if, as may happen, most of its members should be government officials selected because readily accessible rather than official or unofficial persons chosen for their special fitness for the tasks. If any such scheme as the Draft Convention outlines should go into effect, advantage should certainly be taken of several provisions wisely inserted to permit the Council to work mainly through a small Executive Committee; to choose a chairman, vice chairman, and/or chairman of the Executive Committee from outside the shifting membership of the Council itself; to take decisions without holding a meeting; and even, "by unanimity of the votes cast, [to] delegate the exercise of any of its powers or functions to such persons or bodies as it thinks fit."

For the present, with the five contracting governments controlling such large sectors of the wheat economies of their several countries, a Council wholly made up of officials is not open to serious objection. In our judgment, even its present promise would be greater if it included some well-chosen delegates or Council officers appointed from outside governmental circles. For the purposes of a more comprehensive agreement, however, the active presence of such outsiders would probably be essential to such success as is attainable. The Draft Convention permits, but does not require, the utilization of the talents of men thoroughly familiar with the trade. As we bring out below (p. 75), the

Council itself is in the making, and much will depend on how it evolves and matures with its present limited responsibilities and the small number of countries represented.

One of the few blanks in the Draft Convention concerns the thorny problem of voting rights when the number of participating governments is enlarged. The Wheat Advisory Committee set up under the 1933 agreement was composed of 14 members, half from exporting and half from importing countries. There were 1 representative each from five exporting countries, 2 from the four Danube exporters, and 7 chosen by and from the fourteen importing countries. In view of the much larger powers of the Council under the proposed agreement, similar arrangements would probably not be acceptable. Nor would one vote per country, regardless of its stake in the world's wheat, for those with major interests could be outvoted by those with minor ones. Votes in proportion to average shares in international trade in the prewar decade, say 1 for each 50 million bushels (and fraction thereof) of net exports or net imports, has something to be said for it, at least as one element in some combination scheme. It would give Britain a voting power that her interests merit.

This subject has doubtless received careful but not yet conclusive consideration, and is naturally reserved for later decision. Meanwhile, it might well be the subject of at least an unofficial journal article, in time for general circulation and full discussion.

We now pass to certain provisions which look toward the end of the agreement. One of these provides: "The Council shall determine the disposal, on the termination of the Agreement, of any funds which remain after meeting its obligations [X, 7]."

An international body may be set up with great care, yet its ability to function effectively must depend on the continuing co-operation of its members and the continuous backing of the participating governments. The whole scheme is liable to break down if one of the important participants withdraws. Another serious weakness of international agreements, bilateral or multilateral, lies in the ease with which they can be broken by one of the parties. In these senses, the proposed

wheat agreement is vulnerable on several counts.

The Draft Convention is designed to "remain in force for four years after the last day of the month of July following the date upon which it comes into force [Article XII]." At least six months before it is due to expire, the Council is to ask the contracting governments whether they wish to continue it, and it is to report back to them the results of this inquiry with its own recommendations. In the light of past experience, however, expiration by default might easily occur unless all the governments were so well pleased with its operation that they would respond with exceptional promptness and suggest only modifications on which agreement would be easy. Even on the assumption that the agreement eventually adopted should survive a test of more than four years, some additional provisions should surely be inserted to facilitate renewal with modifications indicated by experience.

Moreover, within the period designated, the need for basic amendments, beyond the scope of authority granted to the Council, may become evident. As the Draft Convention now stands, it is a proposed constitution that contains no specification of procedures for amendment, beyond Article VII, 12 (c), quoted on page 40. This defect might prove serious, and it should be remedied in any revision of the present draft.

Article XV envisages and provides for withdrawals within the four-year period. (1) If any contracting government "considers its national security endangered as a result of hostilities," it may ask the Council to suspend any of its obligations with respect to production control, stocks, export control, and price control; and if the request is not granted within 30 days, it may withdraw 15 days thereafter on written notice to the Council. (2) If the Council is shown that any of the four chief exporting countries has exceeded its export quota or violated its price-control obligations, the government of any exporting country may withdraw within 90 days on 30 days' written notice to the Council. (3) If any of these four countries withdraws, under these provisions or conceivably otherwise, the agreement is to terminate unless the Council de-

cides by a three-fourths vote to maintain it with any modifications deemed necessary. Had such provisions been incorporated in the International Wheat Agreement of 1933, they could hardly have helped it to survive the strains of the initial year, and they might even have hastened its formal termination.

We may be wrong in inferring that one or more of the five countries sought to insure the possibility of easy and graceful withdrawal, and that a tighter pact would have stood even smaller chance of adoption now. But as the League of Nations' experience attests, such concessions to secure initial adherents constitute a grave weakness in the face of the political changes and economic strains that may be confidently anticipated. So long as the compact is so vulnerable, no great faith can be placed in its continuing workability until it has stood the test of time.

Article XIII includes two important provisions. (1) While the agreement is in force "it shall prevail over any provisions inconsistent therewith which may be contained in any other agreement previously concluded between any of the contracting Governments." (2) Any contracting government shall strive to procure suitable amendment of provisions inconsistent with this agreement in any agreement with a noncontracting government.

These provisions can easily give rise to issues of interpretation and protracted delays in action. At first glance, they seem altogether reasonable and appropriate. Yet they are so far-reaching that their inclusion warrants extraordinarily careful scrutiny, not only of the express and implied commitments, but also of the philosophy underlying them. It would be absurd if commodity agreements were actually to prevail over, and in specific fields virtually render nugatory, such basic policy commitments as those set forth in the Atlantic Charter and Article VII of the Mutual-Aid Agreements. Presumably the language was not intended to be so construed.

#### NOTES ON DEFINITIONS

A few of the 26 definitions given in Article XVII call for brief comment, because of changes in statistical practice which they im-

ply, or because some of the definitions themselves may need subsequent alteration.

The Argentine crop year, like the Australian, is to be considered as beginning December 1, and carryovers of old wheat are to be determined as of that date. The Food Research Institute has heretofore taken the calendar year as the Argentine crop year—a more convenient if less accurate procedure.

There is no satisfactory series of official estimates of Argentine carryovers of old wheat on December 1. Official estimates of Argentine *commercial stocks* have been published as of the first of each month beginning with January 1937;<sup>3</sup> but December 1 commercial stocks often include some new-crop wheat, and always exclude old-crop wheat outside the positions covered. The only official series of Argentine carryovers as of December 1 that we have seen cannot be altogether trustworthy. This is because these carryover figures have been *computed* with the aid of rounded approximations to domestic utilization during the preceding twelvemonth. This may result in material errors in the carryover figures. Steps will presumably be taken to provide well-based estimates beginning in 1942, and perhaps also to arrive at improved approximations to the carryovers of several past years.

Official estimates of the Australian carryover, unlike those of the United States and Canada, include flour stocks. In the period 1927–39, these ranged from 3.4 to 5.4 million bushels of wheat equivalent, and averaged 27 per cent of the average carryover of wheat and flour in this period.<sup>4</sup> If the new official definition stands, only the wheat grain will be counted in the Australian carryover.

The Canadian carryover is to include “stocks of wheat of Canadian origin held in bond in the United States of America.” This includes wheat in transit through the United States, and also Canadian wheat held here in bond for milling into flour for export. The

latter item is apparently now included in United States mill stocks, where it seems to us to belong.

The United States carryover should obviously be defined to exclude any Canadian wheat in the United States that is counted in the Canadian carryover. In our opinion, it should also include stocks of United States grain in store in Canada, which should not be counted in the Canadian carryover.

Gross exports from Canada are defined as we have recently preferred to measure them,<sup>5</sup> namely “the overseas clearances of Canadian wheat from seaboard ports in Canada and the United States of America, plus imports of wheat from Canada into the United States of America for consumption and for milling in bond, plus flour expressed in terms of its wheat equivalent shipped from Canadian territories.”

On the other hand, under the definition of territories in Article XVI, the definitions of gross and net exports from the United States are such as to exclude shipments to Alaska, Hawaii, and Puerto Rico (also Virgin Islands in 1935–39), which we have hitherto combined with net exports. Accordingly, as now defined, the “total volume of international trade in wheat and flour” will exclude such shipments. United States export figures are not to be adjusted, as we have latterly adjusted them, for stocks of United States grain stored in Canada.

Domestic requirements for the United States have hitherto ordinarily been computed only for the Continental United States. Under the definition now established, the requirements of the noncontiguous territories (Alaska, Hawaii, and Puerto Rico) will now have to be included.

Difficulties in practice may well be encountered, especially in the United States, in distinguishing the volume of “extraordinary use” from ordinary “domestic requirements” or utilization. In the present year such diversion is exceptionally large. Wheat diverted to processing for industrial alcohol and for butadiene (for Buna S rubber) can be readily computed. Under the present feed-wheat program, however, by no means all of the wheat sold by the Commodity Credit Corporation<sup>6</sup>

<sup>3</sup> See table in WHEAT STUDIES, September 1942, XIX, 23.

<sup>4</sup> See data in J. S. Davis, “Bulk Handling in Australia,” *ibid.*, April 1940, XVI, 363.

<sup>5</sup> Cf. WHEAT STUDIES, December 1941, XVIII, 184–85.

<sup>6</sup> *Ibid.*, September 1942, XIX, 4–5.

will constitute a net addition to what would otherwise be used for feed.

Despite the painstaking definitions of old and new terms, and the obvious care taken in specifying how export quotas of various types, "permitted surplus stocks," and other quantities are to be calculated, the statistical tasks imposed on the International Wheat Council would be far from simple. Forecasts of domestic requirements, carryovers, and net exports cannot be made within a considerable margin of error, and revisions of these and

more basic estimates of yield, production, and trade would require continuous adjustment. For such purposes, the Council would of course depend on its secretariat, which in turn would have to lean heavily on official estimates made in the several countries. It is safe to predict that embarrassment if not friction would sometimes arise from the virtual necessity of using standing official estimates of participating countries until these were officially revised, some time after they were known to be in error.

#### IV. STOCKS AND PRODUCTION RESTRAINTS

We now return to the main provisions of the Draft Convention. Since those concerned with stocks and production control are intimately related, both are discussed in this section.

##### RESERVE AND SURPLUS STOCKS

Article III deals with stocks. It provides that the governments of the four exporting countries shall "ensure that stocks of old wheat held at the end of their respective crop-years" shall be within the ranges indicated in the accompanying table, under the headings we have designated as "standard minimum" and "standard maximum" (III, 1). The significance of these figures becomes clearer by reference to the data inserted for comparison.

tional trade in wheat was at higher levels than before or since (p. 59), they are distinctly high. According to estimates now standing, shown in a second table, the Canadian carryover first moderately exceeded 80 million in 1928, after a large Canadian crop and restrained export selling. The United States carryover did not exceed 150 million bushels until 1929, after the huge world crop of 1928. The Australian carryover did not reach the specified minimum of 25 million bushels until 1934, except when wartime surpluses were backed up in 1916-19. The Argentine carryover may have slightly exceeded the specified minimum of 35 million bushels in 1926 and 1929 (perhaps by larger amounts in two or three years of World War I and its

WHEAT CARRYOVERS IN THE FOUR CHIEF EXPORTING COUNTRIES, COMPARED WITH STANDARDS SPECIFIED IN THE DRAFT CONVENTION

Country	Date	1923-27 average	1935-38 average	Standard minimum	Standard maximum	Peak 1923-38	1931-35 average	Actual 1942
United States.....	July 1	117	131	150	400	378 (1933)	297	633
Canada.....	Aug. 1	40	101	80	275	218 (1933)	182	424
Australia.....	Dec. 1 <sup>a</sup>	8 <sup>b</sup>	8	25	80	35 (1934)	16	118 <sup>c</sup>
Argentina.....	Dec. 1 <sup>d</sup>	18	15	35	130	36 (1929)	18	165
Total.....		183	255	290	885	667	513	1,340

<sup>a</sup> These figures exclude stocks of flour averaging 4.3 million bushels a year in 1927-39.

<sup>b</sup> Average of 1927-29. Official estimates for wheat only are available only from 1927. The 1927-39 average was 11.5 million bushels, and except in 1934 none exceeded 14.4 million until 1939.

<sup>c</sup> Our approximation.

<sup>d</sup> Official approximations based largely on computations; see p. 48.

In the perspective of the past two decades, the minimum carryovers specified are by no means small. On the contrary, by the standards of practice in the 1920's, when interna-

aftermath), but was otherwise below it until 1939. The combined average carryover in the years 1923-27, which has been regarded as a reasonably normal level, was below the sum

of the new standard minima by more than 100 million bushels.

WHEAT CARRYOVERS IN THE FOUR CHIEF EXPORTING COUNTRIES, 1924-42\*

(Million bushels)

Year	Canada Aug. 1 <sup>c</sup>	United States July 1 <sup>b</sup>	Argen- tina Dec. 1 <sup>e</sup>	Aus- tralia Dec. 1 <sup>d</sup>	Combined total
1924	48	137	15	..	...
1925	31	108	15	..	...
1926	40	100	35	..	...
1927	56	110	24	8	198
1928	91	112	26	5	234
1929	127	228	36	11	402
1930	127	289	18	10	444
1931	139	313	22	13	487
1932	136	375	16	7	534
1933	218	378	11	14	621
1934	203	274	24	35	536
1935	214	147	19	12	392
1936	127	142	7	4	280
1937	37	83	3	5	128
1938	25	153	30	10	218
1939	103	252	140	16	511
1940	300	282	7 <sup>e</sup>	..	...
1941	480	385	88 <sup>e</sup>	..	...
1942	424	633	165 <sup>f</sup>	..	...

\* Official data of the various countries. The several series are not all entirely comparable throughout. Dots (...) indicate that data are not available.

<sup>c</sup> Canada Dominion Bureau of Statistics, *Monthly Review of the Wheat Situation*, Aug. 21, 1942, p. 32. Through 1931, Canadian wheat afloat for United States ports was not included, and stocks of Canadian wheat in United States lake and seaboard ports were "reported for the week-end nearest to the close of the crop year." Canadian wheat held in bond in United States flour mills has been included only since 1941.

<sup>b</sup> U.S. Dept. Agr., *Agricultural Statistics, 1941*, p. 22, and *Wheat Situation*, August 1942, p. 14. Does not include United States wheat in Canada, but does include some new wheat prior to 1937.

<sup>d</sup> Data based on computations. See p. 48.

<sup>e</sup> Australia Commonwealth Bureau of Census and Statistics, *Production Bulletin* (successive issues), excluding flour stocks.

<sup>f</sup> These are probably too low, since they apparently fail to take into account upward revisions in crop estimates as follows: 1939, 11 million bushels, and 1940, 28 million.

<sup>g</sup> Latest information suggests that this preliminary figure may prove too high.

In our judgment, the minimum carryovers specified are needlessly, uneconomically high. For Argentina and Australia especially, they would call for additional storage facilities and force uneconomical changes in commercial practice, and probably impose unwelcome treasury burdens. Under the influence of "ever-normal-granary" arguments (p. 52), it

is now officially contemplated that *minimum* reserve stocks of wheat in exporting countries shall henceforth typically be maintained substantially above *average* levels that commercial incentives have insured or seem at all likely to insure. This implies either governmental holdings or subsidization of private holding of stocks. Almost no one has openly recognized these implications as yet. We return to this subject below (pp. 53-54).

According to Article III, 2, carryovers may be allowed to fall below the specified minimum under either of two conditions: (a) if the carryover and new crop fall short of the sum of domestic requirements and minimum carryover, the outward carryover may be less than the prescribed minimum by the amount necessary to meet domestic requirements; and (b) "in so far as the Council decides that exports from the minimum reserve stocks of that country are required fully to meet the world demand for imported wheat."

The first of these conditions is apparently designed to preclude forcing an exporting country, in the event of a short crop, to resort to net imports in order that its next carryover shall not fall below the prescribed minimum. It would not prevent exports to the extent that they were offset by imports, or modify the prohibition against exports in excess of such imports. As a relaxation of the strict rule, it seems altogether reasonable, but practical difficulties may be encountered in applying it because crop estimates and forecasts of domestic requirements are subject to error.

The second of these conditions is obviously reasonable. It would be absurd if the reserves should be maintained at levels so liberal while the world is in urgent need of drawing upon them. Yet precisely this sort of thing occurred with corn in 1938-39. Argentina had had two small crops in succession, and Europe two moderate ones. The United States had a large surplus potentially available for export, and European market prices were very high relative to those of other grains. Yet the corn-loan program held our exports down to 34 million bushels during the year ending with September 1939, while our carryover as of October 1 rose by 220 million to a new peak

of 583 million.<sup>1</sup> The Council might need to be on its toes to prevent an occurrence of this sort with wheat.

The maximum carryovers specified, as is also evident from the tables above, are extraordinarily high. In none of the four countries were they reached in 1929-34, a period of then unprecedented surplus. The sum of the peak carryovers of these years was over 200 million bushels short of the sum of the maxima now specified. They were first exceeded in Argentina in 1939, in Canada and Australia in 1940, and in the United States in 1942.<sup>2</sup> Not until this year had they been exceeded in all four countries in the same season. The aggregate of the 1942 carryovers exceeds the sum of the stated maxima by more than 50 per cent. The corresponding aggregate will be much higher still in 1943. This is already assured by the bumper harvests in North America,<sup>3</sup> even if hostilities in Europe should end in time to permit large shipments to European deficit countries before the end of 1943. The surplus stocks in the four chief exporting countries are now truly colossal, far greater than in the corresponding period of the preceding decade. But it is impossible to say, with any approach to assurance, what they will be when the war ends or when some broader international agreement comes into effect.

The maximum carryovers specified, however, are put forward not as goals to be attained or maintained, but as figures for use in connection with the production-control and export-quota provisions of the Draft Convention. Stocks below the specified maxima are

designated "reserve stocks," while those exceeding the maxima are called "excess stocks" or "surplus stocks." The most complicated provisions of the Convention pertain to excess and surplus stocks.

Subject to certain qualifications, any part of carryovers in excess of the maxima at the end of the crop year when the broader agreement comes into effect (at least among the five present signatories) is designated as "permitted surplus stocks," while any part that subsequently arises in consequence of yields above the 20-year average is designated as "permitted excess stocks." As we shall see, provision is made for reduction in permitted surplus stocks through supplementary and secondary export quotas (p. 58), and also though subnormal production in any year while such surplus stocks persist (p. 52); and reduction in permitted excess stocks is expected to be accomplished through subsequent below-average yields (once surplus stocks have been eliminated), measures of production control, special disposition, or perhaps other means *except* additional exports (p. 54). In other words, reduction of permitted surplus stocks is possible through exports, while reduction of permitted excess stocks is not.

If such provisions should go into effect, excess carryovers in some years might include both surplus and excess stocks. Moreover, if an individual country should fail to comply with its obligations, its carryover might include unpermitted as well as permitted excess stocks. So huge are the specified maxima, however, and so eager would most of the four countries presumably be to avoid carrying surplus or excess stocks, that any such difficulties may be expected to be transitional rather than recurrent, except perhaps in the United States.

Some qualifications of the foregoing statements may now be mentioned. If the Draft Convention as published had gone into effect on June 27, 1942, the "permitted surplus stocks" in 1942-43 would have been the difference between the two columns headed "Standard maximum" and "Actual 1942" (as eventually revised) in the table on page 49. However, if such announcement should be

<sup>1</sup> WHEAT STUDIES, December 1939, XVI, 122-24, 187.

<sup>2</sup> At least in Australia, and possibly also in Argentina, the maxima now specified were exceeded in one or more years of the period 1916-19, but no reliable data on carryovers in that period are available.

<sup>3</sup> WHEAT STUDIES, September 1942, XIX, 2-3, 20. It still seems reasonable to expect the combined North American carryover in 1943 to approach or exceed 1,500 million bushels, which is more than Canada and the United States ever produced in any year prior to 1942. Mid-November crop prospects suggest the probability that both Australia and Argentina have produced much more wheat than they will dispose of during the year ending with November 1943. The total 1943 carryover of the four countries now seems likely to be more than double the sum of the standard maximum carryovers.

made less than 45 days before the seeding period for the next harvest begins (Canada and Australia, April 1; Argentina, May 1; United States, September 1), the same calculation would be made as of the end of the next succeeding crop year. Thereafter, "permitted surplus stocks" would be calculated by deducting from these stocks at the end of the preceding crop year (a) secondary and supplementary quotas allocated in the crop year then ending, and (b) any quantity by which production in that crop year plus permitted excess stocks fell short of the sum of domestic requirements, maximum reserve stocks, and the *basic* export quota (III, 5).

The liberality with which permitted surplus stocks are proposed to be computed is brought out in the first of the following provisions of Article III, which are to become effective only when the export-quota provisions come into effect:

6. Should it be shown to the satisfaction of the Council that, owing to insufficient or defective storage facilities, any part of the permitted surplus stocks in any country has been destroyed or has been disposed of by governmental measures in a manner clearly constituting extraordinary use such part shall nevertheless be counted as permitted surplus stocks for the purposes of paragraphs 3 and 4 of Article IV so long as any other permitted surplus stocks remain in that country.

7. The Council shall

(a) at its regular August meeting ascertain the permitted surplus stocks in Canada and the United States of America at the end of their preceding crop-years and estimate such stocks in Argentina and Australia at the end of their current crop-years

and

(b) at its regular January meeting ascertain the permitted surplus stocks in Argentina and Australia at the end of their preceding crop-years and estimate such stocks in Canada and the United States of America at the end of their current crop-years.

Fortunately, it is not necessary that wheat growers shall understand the intricacies of these various provisions and calculations based thereon. We cannot attempt to elucidate them without devoting disproportionate space to what may eventually prove of little practical consequence. They reflect assiduous ingenuity on the part of the drafters, and

promise to require no little work by the Council's secretariat. We despair of predicting how acceptably they would work if applied.

The considerations and computations that led to the precise figures for lower and upper limits of reserve stocks have not been published, and are not essential to the present discussion. Boals says:<sup>4</sup>

These general limits were established, however, for two important reasons; namely, to assure importers that if they reduced their dependence upon domestic wheat supplies and paid fair prices the exporters would maintain minimum reserve stocks in order to prevent a scarcity situation from developing, and to have specified points at which production-control programs must be adopted by exporting countries. The range in stocks, as may be noted, is sufficient in each country to take care of usual yield changes from one year to another.

Apparently the principal ground for setting the aggregate minimum so high was the "ever-normal-granary" argument that consumers in importing countries should be guarded against the risk of high prices such as might result from wheat shortage in a particular season or two. In fixing the specific minima, we understand, consideration was given also to available storage facilities in the several countries, and to their normal carryovers in the 1920's. The upper limits of reserve stocks, we are reliably informed, were set so high in order to allow for potential variations in yields per acre<sup>5</sup> on an acreage calculated as appropriate, with average yields per acre, to provide for domestic requirements and basic export quotas. In other words, the maxima were set high in order to ease the prospective application of production-control measures.

One important fact the Draft Convention does not bring out clearly. As the foregoing data at least suggest, it is obviously calculated, if not designed, to perpetuate a wheat surplus; and it can be expected to have the effect of maintaining reserve stocks in the four chief wheat-exporting countries at a level fully comparable with those of the early 1930's, which were then viewed as including

<sup>4</sup> OFAR, p. 27.

<sup>5</sup> More specifically, the range was calculated on the basis of twice the standard deviation of yields per sown acre in the two decades 1921-40.

large surplus stocks. The Wallace concept of an "ever-normal granary" is that carryovers should average roughly double what was previously considered a normal average. Though the minimum reserve stocks specified in the agreement are only about 50 per cent above such former normal average, the tendency of the scheme in operation would be to maintain actual stocks far above this level, even after some diminution of the huge surplus now existing.<sup>6</sup>

If in fact, as we infer, the prospective effect of the proposed agreement is to insure the maintenance of carryovers in the four chief exporting countries considerably more than double what were formerly regarded as normal average end-year reserves, three implications deserve emphasis. First, the additional stocks will have to be carried by someone, and the cost of such carrying paid for. Second, the price of wheat would naturally be expected to fluctuate within much narrower limits than under conditions of variations between superabundance and scarcity. Third, the price of wheat appropriate under these conditions will be lower than would be appropriate with lower average stocks. The first of these implications calls for brief consideration here.

Such stocks provisions would tend to force governments in the exporting countries to remain in the wheat business, either as holders of a substantial part of the carryover or to subsidize stock-holding by growers or others. Export-quota restrictions, price fixing in the export trade, moderation of price fluctuations, and the weight of such stocks in limiting price advances, would all gravely reduce if not entirely remove commercial incentives to carry wheat. The sizable cost of carrying the stocks would have to be borne by the governments. Both stocks and costs would presumably be larger because, under politically imposed re-

strictions, as American experience clearly shows, government agencies find it far more difficult to sell than to acquire. Uncertainties as to government decisions in this respect, in timing and character, would be likely to constitute altogether imponderable elements in the wheat situation, increasing trading risks in ways that could not be adequately hedged. Speculative grain trading might continue, as it has during the present war, but in reduced volume and on a thoroughly unhealthy basis. Speculative gains might be impressive, as they were in the first year of the Inter-American Coffee Agreement, but they would accrue to those who rightly guessed in advance what political moves would be made and how they would work out. We do not mean to imply that these were the intentions of the framers of the Draft Convention, or of the participating governments in giving it a kind of provisional approval; but in our judgment the present provisions would unquestionably work out so.

In general, moreover, we believe that it should not be the policy to force the backing up of reserve stocks in the exporting countries, on the scale here in contemplation. If enlarged wheat reserves are accepted as desirable, there is much to be said for distributing them at various focal points. If in fact the war should end with large surplus stocks of wheat, and if importing countries would feel greater assurance against recurrence of food shortage by maintaining sizable reserves, the Council might well facilitate exports to aid in building up such "security stocks," on terms understood with the Council if not subject to approval by it. This would be possible, of course, within the terms of the Draft Convention. But if such stocks in importing countries made up a sizable aggregate, minimum and average stocks in exporting countries might well be correspondingly lower. The danger of genuine world wheat scarcity is remote, and ample assurance against even relative scarcity can be secured with world stocks much lower than can be expected under the provisions of the Draft Convention.

If an equalization reserve of wheat stocks is desirable with a view to narrowing the range of fluctuations in international wheat

<sup>6</sup>Boals correctly says (OFAR, p. 27): "The indicated minimum total of 290 million bushels is considerably less than the actual quantity of wheat that would likely be on hand at any particular date. This is due to the fact that all four countries can rarely, if ever, be expected to have carry-over stocks at minimum levels at the same time and, furthermore, the crop years do not coincide for the four countries, so that additional unexported supplies are on hand."



prices over a period of years, such reserve might better be held by an international, non-political corporation, under conditions so wisely determined and so widely understood that they could be taken fully into account by all interests concerned and would lessen trading risks rather than increase them.

We do not wish to overemphasize the cost element in the stocks provisions. Yet it is prudent to anticipate that, when the war is over, heavy taxpayers' burdens will lead to far closer paring of avoidable fiscal outlays than has been feasible during the war or the rearmament period preceding it. Demands for economy, and for large new public spending in certain directions, will warrant extensive curtailment of many wastes of public funds, of which the United States silver purchases are a large-scale example. Indefinite continuance of deficit financing, such as persisted through the decade of the 1930's, cannot safely be assumed.

#### PRODUCTION RESTRAINTS

The International Wheat Agreement of 1933 contained several incidental provisions with respect to limitation of wheat acreage and production, but these were not taken very seriously.<sup>7</sup> This was true even in the United States, though our representatives had most strongly urged the importance of such provisions,<sup>8</sup> and devices for curtailment of acreage sown had been set up under the Agricultural Adjustment Act of 1933. The three Canadian Prairie Provinces passed in April 1934—too late to affect that year's acreage—relevant marketing control acts which never became operative.<sup>9</sup> Argentina and Australia had no such machinery, and were reluctant to set up any in the face of opposition from their

<sup>7</sup> J. S. Davis, *Wheat and the AAA*, pp. 322-23, 334-41.

<sup>8</sup> At the earlier London conference of May 1931, United States delegates had urged the primacy of positive national measures to reduce wheat acreage. See A. E. Taylor, "The International Wheat Conferences during 1930-31," *WHEAT STUDIES*, August 1931, VII, 451-63, 470-75; and Paul de Hevesy, *op. cit.*, pp. 851-53.

<sup>9</sup> G. P. Boals, "Wheat Control Legislation in Canada," *Foreign Crops and Markets* (U.S. Dept. Agr.), Apr. 30, 1934, pp. 460-64.

<sup>10</sup> Wheeler, *op. cit.*, pp. 94, 96-98.

farmers. Soviet Russia was unwilling to consider any restrictions on her wheat production, and European exporting and importing countries were unready to make more than the mildest of commitments in this direction. Adverse weather and competition from other crops were responsible for most of the actual reductions in wheat acreage and production between 1933 and 1934. United States representatives have nevertheless continued to urge the absolute necessity of production-control provisions in all international agreements dealing with commodities that tend to be in surplus, and are disposed to regard their absence in the Inter-American Coffee Agreement as a defect to be remedied.<sup>10</sup>

The Draft Convention provisions for production control are very brief. They include but go somewhat farther than the interim commitments already discussed (p. 34). The four exporting countries are to adopt "suitable" (not merely "positive") measures "to ensure that the production of wheat in their territories does not exceed the quantity needed for domestic requirements and the basic export quotas and maximum reserve stocks [II, 1]" (pp. 49, 58). If a country should choose to let its wheat stocks accumulate up to the specified maximum, without resort to production-control measures, it is thus to be free to do so. Moreover, if production in any year should exceed this level by reason of yields above the average of the preceding 20, the government concerned is accorded certain options. (a) It may take, before the end of that crop year, "such action as will result in the disappearance of the excess production within its territories before the end of the following crop-year or shall otherwise deal with such excess production as the Council may direct [II, 2]." (b) It may carry, as "permitted excess stocks," such amount as is due to above-average yield, to be reduced or added to in succeeding years under a formula set forth, "or deal with it in such other manner as may be agreed with the Council [II, 2; III, 3, 4]." Unless the Council should so agree, as seems unlikely, the export quota of the country is to be unaffected by the existence or volume of "permitted excess stocks." Limitation of exports is thus the primary device for

enforcement of the production-control provisions.

The initial impact of the production-control provisions is further softened by the authorization of permitted surplus stocks when this article first comes into effect, and of their gradual reduction (p. 51). Moreover, no attempt is made to specify uniform or alternative methods for curtailing or contracting acreage or production. In view of the high figures established for maximum reserve stocks, this group of provisions gives an impression of mildness. The character of the terms we are inclined to attribute to the indisposition of delegates from most of the five countries to adopt more stringent and specific ones, in the face of attitudes hostile to or critical of severe restraints on acreage or production, and in view of fiscal burdens involved in such outpouring of public subsidies as have "sweetened" acreage contraction for United States farmers.

Nevertheless, the apparent mildness may prove illusory. Sooner or later, one country or another is likely to find itself bound by these terms to impose restrictions much more severe than its farmers or legislators have thus far been willing to accept. We infer that, if the main provisions of the present Draft Convention had been brought into full force in October 1941, they would call for more drastic restraints on wheat production in 1943 than are yet in force.

It has long been argued that lack of an international agreement among the surplus-producing countries has prevented the adoption of necessary measures to restrict wheat production, that no one country can afford to go far in this direction unless it has assurance that others will do likewise. This view is about to be tested. In our judgment, this has been among the least of the practical obstacles to making production control effective. So far as we can see, the burden of this task would not be appreciably lightened by adoption of the agreement. If, indeed, price-maintenance policies should be vigorously pursued, if export restrictions are kept as they are, and if hopes of inducing importing countries to curtail their high-cost production prove vain, the burden may even be increased.

As yet we see no signs that the production-control provisions now in force, or the moderately stronger ones embodied in the Draft Convention, will lead to material increase in the effectiveness of production restraints in any of the four countries.

If positive production restraints are desirable, they should be applied long before reserve (or permitted surplus) stocks have reached the high levels indicated. If these levels chance to be exceeded in one or more countries—in peacetime, indeed, at some point short of this—considerations of national interest can be expected to spur the country or countries concerned to intensify their efforts to restrict their wheat acreage, reduce or remove stimuli to wheat production, and/or provide extraordinary outlets for part of the surplus. New Canadian moves in these directions have been recently reported.

If such considerations alone should fail sufficiently to influence the national policies of one or more countries, as they have hitherto failed in the United States and Canada, the International Wheat Council might well try to exert mild pressure by persuasively calling attention to the terms of the agreement and perhaps making recommendations to the governments. There was extreme provocation for such timely action at the initial meeting of the International Wheat Council in August 1942. It was not taken then (p. 37). If the Council should grow up to its job, and develop a genuine power of leadership, it might go beyond this mild step. So long, however, as it remains a large intergovernmental committee, few of whose members are in position to speak with authority in governmental or business circles, this may be too much to expect.

Consider the present situation. In the United States farm program as now set up, the largest single barrier to more substantial curtailment of wheat production is the legal minimum acreage allotment of 55 million acres. On the theory of the program itself, especially under present circumstances, this limitation should be removed or materially reduced. One Secretary of Agriculture did not resist its imposition, and another has not urged Congress to change it. Could the Inter-

national Wheat Council persuade him to do so, and perhaps win such respect from the Congress that its reasoned recommendations would sufficiently strengthen his case? If so, it will be a notable achievement.

In short, while production control has been a cornerstone of the United States case for international commodity agreements, the burden of proof remains on their advocates to show that for wheat the contemplated degree of restriction will be actually applied.

As now written, Article II relates only to the four chief exporting countries. An official note is appended: "This Article to be expanded, when further international consideration of the subject is possible, to include provisions for production control in other exporting countries and in importing countries." What progress has been made toward drafting such crucial provisions, not yet published, we have no basis for saying. This is a serious gap in our knowledge. But we venture to say that much work remains to be done before suitable provisions can be adopted and effectually implemented.

The Preamble of the Draft Convention not only adverts to the need for this, but also stresses the importance of "a substantial decrease in uneconomic incentives to high-cost production," and the nutritional gains that would follow diverting such high-cost lands from wheat to the increased production "of foods rich in vitamins, proteins and minerals." These are sound arguments, so far as they go; but the conclusion to which they point would require extensive agricultural reorganization in many countries, and also general acceptance of the view that this could be achieved without endangering the security of the peoples concerned.

If the International Wheat Council is alert to the problems and tasks ahead, it may logically promote investigations and deliberations along these lines, well in advance of the proposed conference. Otherwise, the conference may easily be wrecked on this shoal, or an unsatisfactory agreement reached. The present draft is conspicuously weak in its lack of positive inducements to high-cost wheat-producing countries (notably in Europe) to make shifts from wheat that would

enlarge the markets for wheat from the low-cost producers. Some such inducements may be held in reserve. After experiences with food shortages during the present war, however, strong inducements will be needed (in addition to convincing guarantees against recurrence of major war) to counteract tendencies toward maintaining expanded wheat acreage in many European importing countries and intensifying their efforts toward self-sufficiency in food.

Even in Great Britain the issue is far from settled. In October 1941 the British Minister of Agriculture (Hudson) put before a meeting of British farmers and landowners his convictions that "the spectre of famine, if not actual famine itself, will stalk over Europe for many years to come. If we are to allay that spectre we shall need to call on the resources of overseas countries to feed Europe, and that means that we ourselves in this country, will have to maintain, for many years after the Nazis are destroyed, something approaching our present output of food." Though Mr. Hudson spoke of "food," we venture to infer that he would have listed wheat among the foods he had in mind. If not yet dominant in England, some such views are firmly held by persons now in responsible positions, despite a consensus among economists that Britain should return to her prewar emphasis on livestock production. The majority report of the Scott Committee on land utilization in rural areas (published in August 1942) is essentially, according to the London *Economist*, "a plea for the maintenance of a large, protected and subsidised agriculture."<sup>11</sup>

Here, in short, is a field in which the International Wheat Council needs to make substantial if quiet progress before the proposed international wheat conference is held.

In our opinion, however, the whole idea of production control by public regulation has been overemphasized. Contraction of world wheat acreage and production, from the high levels of recent years, is indeed appropriate unless wheat utilization can be expanded well

<sup>11</sup> *Economist*, Aug. 22, 1942, p. 226. The geographer, Dudley Stamp, "chief architect" of this report, has recently become chief adviser of the Ministry of Agriculture on the utilization of rural land. *Ibid.*, Oct. 10, 1942, p. 413.

in excess of past or prospective levels. But these desirable results might be more satisfactorily achieved through removal of special stimuli to maintenance or expansion of acreage, and through allowing surpluses to flow into low-price uses, than by resort to all sorts of restrictive measures while maintaining those stimuli and prices that limit utilization of abundant supplies. Official supporters of international commodity agreements of the

present type include possibilities in these directions when they set forth the possible courses as three: laissez-faire, nationalistic actions, and international collaboration.<sup>12</sup> But planned international collaboration is too often thought of in terms of regulative restrictions. If it is really to succeed, it must not be confined to these, but must include numerous elements of other kinds, including laissez-faire itself.

## V. EXPORT QUOTAS

In the theory and practice of international commodity agreements, for more than a decade, export quotas have occupied a central position. They were the favored device of most of the wheat-exporting countries represented at the abortive London conference of May 1931. There, however, no specific plan was presented, and the conflict of views as to appropriate quotas for individual countries was so sharp that it is doubtful whether they could have been reconciled.<sup>1</sup> Similar difficulties long delayed the conclusion of the International Wheat Agreement of 1933, and put off reaching agreement in 1939 until the onset of war interrupted the negotiations.

The appeal of export quotas lay partly in the view that such machinery would facilitate maintenance of prices in international markets at levels largely uninfluenced by surplus stocks in exporting countries—a view not confirmed by actual experience in 1933–34 (p. 63), and in our opinion commonly overstressed. It lay partly in the view that exports are technically and politically easier to regulate than are wheat prices, acreage, and production. It lay partly in the view that limitation of exports by quota would provide essential pressures upon the exporting countries to regulate their production and/or to dispose of surplus stocks domestically. Such views have persisted.

### THE PROVISIONS

In the present Draft Convention, Article IV (Export Control) is central. The core of its ingenious provisions is the quota. In each quota year—the “international crop year” ending July 31—none of the participating ex-

porting countries is to allow its net exports to exceed the aggregate quota assigned to it by the Council (IV, 1). Such quota may consist of one or more quotas—basic, secondary, and supplementary.

As now drafted, specific details are given only for the four chief exporting countries. If others sign such a convention at the proposed international conference, that document is expected to make corresponding provision for their export quotas. Any country subsequently admitted as an exporting country is to have “such basic export quota as may be agreed with the Council [XIV].” The present draft apparently provides that exporting countries which come in at the outset may be accorded rights to secondary and supplementary quotas, while those who join later can secure only basic quotas. We presume, however, that any late adherents that accepted percentage export quotas could obtain privileges comparable with those of the four chief exporting countries.

One is struck by the fact that the export quotas appear to apply to all net exports, regardless of destination or eventual use.<sup>2</sup> As we read the entire agreement, it was the expectation that donations to the relief pool would be outside the export quotas. Boals indeed says: “These percentages, of course, ap-

<sup>12</sup> Cf. Wheeler, *op. cit.*, pp. 95–96.

<sup>1</sup> A. E. Taylor, “The International Wheat Conferences during 1930–31,” *WHEAT STUDIES*, August 1931, VII, 452–62.

<sup>2</sup> In his latest scheme, de Hevesy urged (*op. cit.*, chaps. iv, viii) that export quotas be applied solely to exports to Europe, leaving competition wholly free in the rest of the world, and that exports of wheat unfit for human consumption be also excluded from quota limitations.

ply only to commercial transactions; relief wheat would be handled separately.”<sup>3</sup> But since the articles on Relief Pool, Export Control, and Definitions are all silent on this point, the natural interpretation of the present Draft Convention is that such donations as may move after such convention came into effect would fully count in the export quotas. Perhaps here was an oversight that will be corrected before the export-quota provisions become effective. If lend-lease shipments of wheat should become of importance, the same question may arise in connection with them.

It is provided that after the export-control provisions go into effect—perhaps before a comprehensive agreement is signed (p. 40)—one of the principal functions of the Council shall be to make and publish, at its annual August meeting, “an estimate of the total volume of international trade in wheat and flour in the current quota-year,” and to review and revise this estimate from time to time (VII, 15). From such total, deductions are to be made for estimated net exports from countries not parties to the agreement, and for “basic export quotas” agreed upon for additional exporting countries that have become parties to it (IV, 2; XIV). In the net total thus derived, up to a maximum of 500 million bushels, basic export quotas are to be assigned to the four chief exporting countries, as follows<sup>4</sup> (IV, 2):

Country	Per cent	Maximum (million bu.)
Canada . . . . .	40	200
United States . . . . .	16	80
Argentina . . . . .	25	125
Australia . . . . .	19	95

<sup>3</sup> “New World’ Wheat Agreement,” *Agriculture in the Americas*, August 1942, p. 149.

<sup>4</sup> According to de Hevesy, *op. cit.*, p. 39 n., the percentages under discussion in London in August 1939 were 40, 18, 25, and 17 respectively; but we have no authority for accepting these as correct.

<sup>5</sup> A crude precursor of this provision was incorporated in the 1933 agreement, as follows:

“The difference between the effective world demand for wheat in the crop year 1934–35 and the quantity of new wheat from the 1934 crop available for export will be shared between Canada and the United States of America as a supplementary export allocation with a view to the proportionate reduction of their respective carry-overs.”

Agreement upon these basic-quota percentages was in itself a signal achievement. How they were arrived at has not been disclosed. Presumably it was the result of a bargaining process with arguments based largely on selected historical data. As shown in part by the accompanying table, actual net exports of the four chief exporters exceeded 500 million bushels in 1915–16 and in every year from 1918–19 to 1932–33; but in the following decade they were below 500 million bushels in every year, though in 1939–40 this figure was closely approached. In the 10 years ending with 1938–39, as the last line of the table shows, aggregate net exports of the four chief exporters averaged 507 million bushels a year, and their respective shares in this total were Canada, 39.3, United States, 12.6, Argentina, 25.6, and Australia, 22.5 per cent. Canada and Argentina accepted percentages close to those for this 10-year average. This prewar decade included, however, three years in which the United States was a net importer and two others in which her net exports were very small, in considerable part because of an exceptional series of poor harvests. The United States delegates were evidently able to argue that prior to 1932–33 our share had never dropped below 17 per cent, and that they were conceding a good deal in accepting as low a basic percentage as 16. Similarly, the Australian delegates were presumably persuaded that their higher percentages since 1929–30 were in sharp contrast to their lower percentages in earlier years, and that a basic percentage of 19 could reasonably be accepted.

If the residual figure should exceed 500 million bushels, the excess is to be divided among these four exporting countries on a different basis, as “secondary export quotas.”<sup>5</sup> These are to be in proportion to “permitted surplus stocks” (above, p. 51), for the first half of the quota year as ascertained at the August meeting of the Council and for the second half as determined at the January meeting (IV, 3).

“Supplementary export quotas” are to be allocated, ordinarily in the same manner, from portions of export quotas or estimated allowances which the Council is satisfied will not be exported within the specified quota

## WORLD NET EXPORTS OF WHEAT AND FLOUR, ANNUALLY FROM 1922-23\*

(Million bushels, except as noted)

Aug.-July	Four chief exporters					Other exporters <sup>c</sup>	Grand total	As percentage of four exporters' total				
	Canada <sup>a</sup>	United States <sup>b</sup>	Argentina	Australia	Total			Canada	United States	Argentina	Australia	Other exporters <sup>c</sup>
1922-23.....	279	200	139	50	668	44	712	41.8	29.9	20.8	7.5	6.6
1923-24.....	344	127	173	86	730	98	828	47.1	17.4	23.7	11.8	13.4
1924-25.....	192	256	125	124	697	76	773	27.6	36.7	17.9	17.8	10.9
1925-26.....	324	103	97	77	601	98	699	53.9	17.1	16.2	12.8	16.3
1926-27.....	291	199	144	103	737	112	849	39.5	27.0	19.5	14.0	15.2
1927-28.....	324	184	178	71	757	55	812	42.8	24.3	23.5	9.4	7.3
1928-29.....	397	151	222	109	879	56	935	45.2	17.2	25.2	12.4	6.4
1929-30.....	192	142	151	63	548	85	633	35.0	25.9	27.6	11.5	15.5
1930-31.....	269	113	125	152	659	188	847	40.8	17.1	19.0	23.1	28.5
1931-32.....	207	112 <sup>2</sup>	140	156	615 <sup>d</sup>	178	793 <sup>d</sup>	33.6	18.2	22.8	25.4	28.9
1932-33.....	262	30	132	150	574	52	626	45.7	5.2	23.0	26.1	9.1
1933-34.....	192	26	147	86	451	99	550	42.6	5.8	32.6	19.0	22.0
1934-35.....	163	(7) <sup>e</sup>	182	109	454	86	540	35.9	.0	40.1	24.0	18.9
1935-36.....	246	(35) <sup>e</sup>	70	102	418	100	518	58.9	.0	16.7	24.4	23.9
1936-37.....	210	(20) <sup>e</sup>	162	102	474	149	623	44.3	.0	34.2	21.5	31.4
1937-38.....	89	114	72	126	401	151	552	22.2	28.4	18.0	31.4	37.7
1938-39.....	158	100	122	96	476	164	640	33.2	21.0	25.6	20.2	34.5
1939-40.....	192	41	179	86	498	123	621	38.6	8.2	35.9	17.3	24.7
1940-41.....	231	28	96	90	445	45	490	51.9	6.3	21.6	20.2	10.1
1941-42.....	226	24	80	30	360	40	400	62.8	6.7	22.2	8.3	11.1
Average												
1922-39.....	259	116	149	110	634	112	746	40.9	18.3	23.5	17.3	17.7
1929-39.....	199	64	130	114	507	125	632	39.3	12.6	25.6	22.5	24.7

\* Computed according to the definitions incorporated in the Draft Convention, Art. XVII. See above, p. 48. Data mainly from official sources, in part through International Institute of Agriculture. Figures in italics are our approximations.

<sup>a</sup> Overseas grain clearances, plus flour exports, plus United States grain imports from Canada, less imports of wheat and flour.

<sup>b</sup> Excluding shipments to possessions, and unadjusted for changes in stocks of United States wheat in Canada; from 1935-36, derived by subtracting imports for consumption rather than general imports plus re-exports.

<sup>c</sup> USSR, four Danube countries, three French North African countries, India, and other countries in each year in which they were net exporters.

<sup>d</sup> Probably understated by 7-9 million bushels.

<sup>e</sup> Net imports, ignored in arriving at totals and averages.

year (IV, 4); but no such decision "shall prejudice the right of any country to export its full export quota within the quota-year to which it relates [IV, 5]." In the event that none of these exporting countries has any "permitted surplus stocks," supplementary export quotas are to be allocated in proportion to percentage export quotas of those countries which are in a position to export.

Ceding, transferring, or loaning quotas or any part thereof is specifically forbidden, except "with the unanimous approval of the contracting Governments of exporting countries [IV, 8]."<sup>o</sup> "No export quota or part

thereof shall be exported in any quota-year other than that to which it relates," with exceptions noted below (IV, 7).

Three additional provisions ease the rigidity of export-quota limitations. (1) If shipping shortage in the first quota-year is responsible for any country's failure to ship any part of its export quota, supplementary quotas allocated to other countries in respect of this shall be deducted from their basic quotas in the second quota-year and this total added to the basic quota of the country affected in the second year (IV, 6). (2) If unavoidable delays in the arrival or departure of ships result in shipping part of an export quota after the end of the quota-year, it may be deemed to have been shipped within that quota-year (IV, 7). (3) Excesses of net exports over

<sup>o</sup> Under de Hevesy's plan (*op. cit.*, chaps. iv, viii), an important feature was that the quota-certificates provided for should be freely transferable, presumably at prices that would change with conditions.

quotas, due "to practical difficulties of closely controlling shipments," will not constitute infractions of the agreement if not more than 5 per cent; but in such event the quota for the following quota-year will be reduced by the amount of the excess up to 3 per cent of the quota and by three times any amount over 3 per cent (IV, 11). This is designed as a penalty which would impel participating countries to keep within their quotas, but permit them to pay the penalty without being adjudged guilty of breaking the agreement if the excess were only small.

The three following provisions are included with a view to enforcing the proposed agreement in respect to export quotas:

Each contracting Government shall upon request telegraph each month to the Council the gross exports and gross imports of wheat and of wheat flour from and into its territories in the preceding month, and shall supply such other information as the Council may from time to time request for the purposes of the Agreement. [IX, 2]

When it appears that any country is approaching the limit of its export quota, the Chairman of the Council on the recommendation of the Executive Committee shall request the Government of that country to control loadings for export during the remainder of the quota-year and to telegraph each week to the Council the gross exports and gross imports of wheat and of wheat flour from and into its territories during the preceding week. [IV, 9]

When the Chairman of the Council after consultation with the Executive Committee finds that any country has exported its export quota for any quota-year he shall immediately make a declaration to that effect. The contracting Government of the exporting country concerned shall thereupon announce that the exportation of wheat or flour from its territories will not be permitted after seven days from the date of the Chairman's declaration and the contracting Government of each importing country shall not permit the importation into its territories of wheat or flour shipped from that exporting country during the current quota-year more than seven days after the date of the Chairman's declaration. [IV, 10]

We may be sure that this last half-sentence, providing that participating importing countries shall co-operate in enforcing export-quota limitations, has already received close scrutiny in British government circles. Before the major provisions of the Draft Conven-

tion can come into effect among the five countries, British officials will doubtless canvass the whole scheme afresh, if not still more exhaustively, to make sure that Great Britain can safely make such a commitment. Other wheat-importing countries, potential participants in some such agreement, are likely to do the same. They will certainly seek to avoid being put in the position of supporting, contrary to their own interests, a monopolistic scheme of the exporting countries. We do not expect this provision to be operative unless the importing countries can count on exerting powerful influence on decisions affecting export quotas and price determinations.

Subject to the limitations to be imposed by export quotas, the Draft Convention recognizes "in principle that . . . wheat from each exporting country should continue to find its way into its normal markets [IV, 1]." Nothing in the agreement expresses or openly implies any assumption regarding the conduct of that trade, whether by private concerns or by public agencies. Yet we believe that the net effect of the scheme presented in the Convention would be to strengthen the grip of government agencies on such trade.

The final paragraph in Article IV, however, contemplates the possibility of concerted action to deal with potential threats to the export-control system:

The contracting Governments recognize that international trade in wheat should be distributed on a fair and equitable basis among all countries which export wheat and they agree that the effective operation of the Agreement should not be impaired by abnormal exports from countries that have not acceded to it. Accordingly the contracting Governments shall cooperate in taking, on the advice of the Council, such practicable measures as may be necessary to attain this end.

In framing this provision the drafters presumably had in mind such instances as the extraordinary export sales by the USSR in 1930-31<sup>7</sup> and the relatively large volume of heavily subsidized exports from France in 1934-35.<sup>8</sup> They may also have contemplated the possible rise of one or more new export competitors under the "umbrella" held by the

<sup>7</sup> WHEAT STUDIES, February 1931, VII, 262-66, and December 1931, VIII, 90, 111.

<sup>8</sup> *Ibid.*, December 1935, XII, 125-26.

participating governments. We regard the provision as inherently reasonable, provided the execution of the agreement as a whole is in the interest of the world as a whole. It must be recognized, however, that it opens the door for a special kind of economic warfare directed at potential rebels against an international cartel. To prevent the rise of new low-cost producers, as each of the four chief exporting countries once was, would be highly contrary to the general interest of the world economy.

#### FURTHER COMMENTS

The export-quota provisions call for additional observations on several points.

If export quotas, derived by bargaining with the aid of historical data, are desirable at all, the basic percentages already arrived at appear altogether reasonable. Whether this achievement will facilitate agreement on basic quotas for other exporting countries, we are in no position to say. If the governments concerned wish to experiment with such a system, during a period in which the bulk of wheat stocks are held by government agencies, this may be a good time to try it.

Yet we cannot endorse this move in the direction of indefinitely imposing on future trade a fixed pattern based largely on past averages. The distribution of wheat and flour exports by sources after World War I was radically different from that of the years preceding it. Similar if smaller changes, now unexpected, may appear in new normal relationships following the present hostilities. Readjustment to the new normal will be economically advantageous, and striving to return to prewar averages may even be dangerous. Progress in cost reduction typically occurs by the process of rising competition of lower-cost with higher-cost producers, and economic progress calls for encouragement of this process, not measures to stifle it.

Furthermore, the notion that it is "orderly" for agricultural exports from individual exporting countries to be more or less the same from year to year, or in about the same proportion, strikes us as highly artificial, if not economically preposterous. In our judgment, if nature happens to give Argentina a large

crop and Canada a small one, true "orderly marketing" would call for enlarged exports from Argentina and reduced exports from Canada. If supplies from carryover and crop are large in one country and only moderate in another, the presumption is against giving importers only limited access to the abundance and forcing them to draw relatively heavily on the moderate supplies. It is a basic economic principle that any resource that is relatively abundant should be used freely while one that is relatively scarce should be economized. This is applicable to wheats of different types, from different sources. Under the quota plan, this principle would be violated.

As we now see it, the export-quota provisions would be far more restrictive than is in the interest of the world's consumers or consistent with the free flow of international trade. The restrictiveness would be lessened if the basic-quota percentages were applied to a much smaller total, and if both minima and maxima were reduced in the case of stocks.

Wheat growers in the four chief exporting countries are in some danger of believing that, if they have export surpluses to provide these amounts, they are virtually guaranteed minimum exports corresponding to the stated percentages of 500 million bushels—Canada 200 million, Argentina 125, Australia 95, and the United States 80—and various chances at larger exports. Actually, of course, the Convention gives no such assurance.

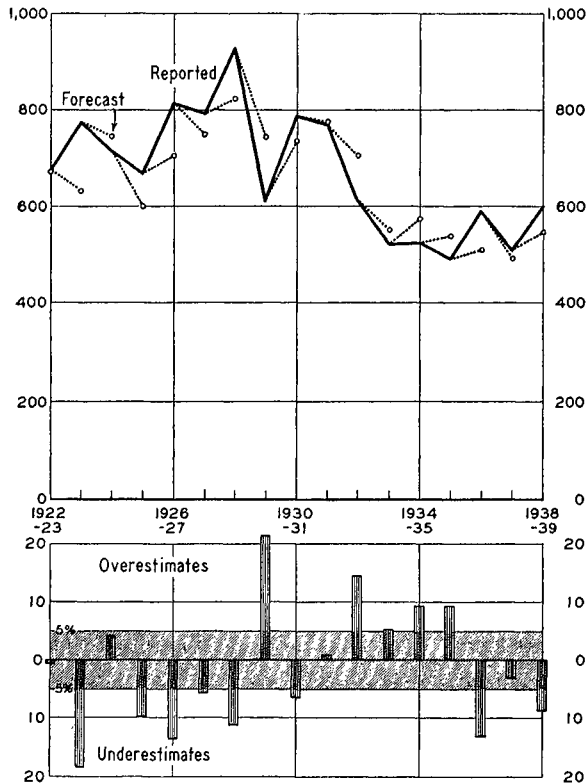
Under certain conditions, it is conceivable that the total volume of international trade in wheat may be enlarged, in the decade following the termination of war in Europe, to the level of 800 million bushels which was approached in 1922-32. If the major provisions of the Draft Convention come into force, much will depend on the price policy that is pursued, and much also on the degree of success achieved in inducing high-cost producing countries to curtail their wheat production. Thus far, we do not feel justified in expecting the conditions for important enlargement of international trade in wheat to be provided by a system of regulation in which export restrictions are the central feature.

August forecasts of the volume of international trade for the crop year then just begun



BROOMHALL'S INITIAL FORECASTS OF INTERNATIONAL SHIPMENTS OF WHEAT AND FLOUR COMPARED WITH SHIPMENTS EVENTUALLY REPORTED, 1922-23 TO 1938-39\*

(Million bushels; per cent)



\* Data from *Corn Trade News* (Liverpool). Forecasts usually made in August (occasionally September) for the crop year August-July.

are subject to a considerable margin of error. Over a period of years the August forecasts published in Broomhall's *Corn Trade News*, as to international shipments to Europe and ex-Europe during the crop year, have been more continuous and more reliable than others. The accompanying chart shows how total shipments eventually reported have diverged from these forecasts. In only four seasons out of 17 was the forecast accurate within 5 per cent. The extreme divergences were -18 per cent in 1923-24 and +21 per cent in 1929-30. There were seven years in which the forecasts proved too low by 5-14 per cent, and four others in which they proved too high by 5-14 per cent. Our own experience is that the volume of net exports is less easily predictable, even by mid-September.

Some of the reasons for error lie in more or less substantial revisions of August estimates of Northern Hemisphere crops, and especially in early forecasts of Argentine and Australian harvests. Others lie in uncertainties regarding the volume of carryovers in unreported positions, and in the difficulty of forecasting the takings by China, Manchuria, and some minor ex-European importing countries. Still others lie in the impossibility of accurate forecast of the timing of export sales and import orders toward the end of a crop year, under the influence of new-crop prospects in importing and exporting countries. Most of these sources of error will persist.

Altogether, it is likely that the Council's forecasts of the volume of international trade, and of actual exports from countries within and outside the agreement, would be subject to frequent revision. The export quotas of exporting countries having percentage quotas would accordingly be subject to frequent revision within the season. Nevertheless, we recognize that the operation of the proposed scheme might reduce the influence of some factors making for changes in forecasts of international trade, and thereby lessen the magnitude of changes in export quotas within a quota year.

The enforcement provisions will call for import-control and export-control legislation and machinery in both importing and exporting countries, and prompt utilization of this machinery when occasion arises. If there were a number of international commodity agreements of this general type, such machinery would be in practically continuous use. The details might prove manageable, and enforcement feasible, but it can hardly be doubted that such regulation would be more reminiscent of prewar and wartime systems of trade restrictions than in keeping with the idea of unshackled commerce. Nor can one overlook the probability that instances would occur in which a strong economic case could be made for exceptions which the terms of the agreement would prevent granting. There is an additional danger that the existence of restrictive machinery would lead to more extensive use of it than present proponents of commodity agreements contemplate.

Subsidization of wheat exports, production, or growers is not mentioned in the Draft Convention, or in any of the accompanying documents. By virtue of this silence, the participating governments are evidently to be left free to resort to such subsidies in any form and degree, so long as they do not violate the specific provisions for control of stocks, production, exports, and export prices. It may be read between the lines that, in the exporting countries, subsidization of special diversion is contemplated in respect of "extraordinary use" (p. 52). There is no provision that would require the United States to abandon or modify its complex subsidization of wheat growers, or the United Kingdom the substantial subsidies that were paid under the Wheat Act of 1932.<sup>9</sup> The official United States expectation has been, and evidently is, that direct or indirect subsidization of exports within its quota would be the rule—with the subsidy cost per bushel lowered to the extent that the agreement raises the level of international market prices.<sup>10</sup>

If exports from other countries were tending to fall short of their quotas because ordinary export sales failed to materialize in sufficient volume in commercial transactions, they too might often exercise the option of subsidizing exports in some way. Competitive subsidization is not obviated, but merely subjected to limits. In view of the financial power of the United States, and its use of this power

to subsidize exports of 90–100 million bushels of wheat in 1938–39, it is salutary to impose some limit on the extent of such subsidized exports.

In a larger view, however, we consider that the United States has no just claim to export wheat if our exports will move only under subsidy. If our national policy is to maintain domestic wheat prices, and marginal costs, above levels at which importing countries can elsewhere satisfy their demands, it is inequitable for us to use our financial strength and fiscal power to take this much of the market from other exporting countries. The same principle properly applies to other countries that may be tempted to subsidize exports. We regard export subsidization as a form of unfair competition, deserving to be outlawed by international agreement—subject to exceptions approved by an international authority under special circumstances. If United States participation in such commodity agreements is politically possible only by tacit consent to resort to this device, this is regrettable.

In the light of the huge surplus accumulated in the United States in recent years—likely to exceed 800 million bushels by July 1, 1943—we consider the alternative of complete domestic absorption of the surplus to involve only moderately larger problems than absorbing the balance of such surplus after deduction of the export quotas designated in the Draft Convention.

## VI. PRICE REGULATION

The International Wheat Agreement of 1933 contained no substantive provisions relating to wheat prices. The major commitment by the importing countries, to make reductions in their barriers to wheat imports, was contingent upon the maintenance for 16 weeks of an average British import price of wheat equal to 63 gold cents per bushel, compared with the actual average of 52 gold cents in August–July 1932–33. It was sought to

raise wheat prices to or above this basic level by restricting exports to quotas in a total set at 560 million bushels. Though Argentina's net exports materially exceeded the quota assigned her, total net exports fell 10 million bushels short of the aggregate forecast. Nevertheless, British import prices remained much below the price aimed at, and for the crop year 1933–34 averaged 43 gold cents per bushel—appreciably lower (in gold terms) than they were when the agreement was formulated or signed.

Sponsors of the 1933 pact came to regard the lack of minimum prices as a serious weakness, but failure attended all efforts to remedy

<sup>9</sup> See our successive annual reviews of the world wheat situation, and Ada F. Wyman and J. S. Davis, "Britain's New Wheat Policy in Perspective," *WHEAT STUDIES*, July 1933, IX, 305–50.

<sup>10</sup> See above, pp. 28, 30 n.

the supposed defect in a revised agreement. The drafts under consideration in 1939 included this feature in some form.<sup>1</sup> The Price-Control provisions of the new Draft Convention constitute by far its most ambitious element, brief though they are.

#### THE PROVISIONS

Article V provides that, before the provisions on export control come into force, "and thereafter at each regular August meeting" of the Council, it shall "fix and publish" basic minimum and maximum prices of wheat, "c.i.f. United Kingdom ports, and schedules of prices, c.i.f. and/or f.o.b., equivalent thereto for the various wheats sold in world markets [V, 1]." The Council is to set the date when these are to become effective. They are to remain in force until the effective date of new ones adopted at the next August meeting of the Council, subject only "to such adjustments as the Council may find necessary to meet substantial changes in freight or exchange rates" or "at monthly or other intervals to allow for carrying charges [V, 1, 3]." The governments of the four countries are to prevent "the sale of wheat for export, or to millers for producing flour for export, at prices below the minimum equivalents" so fixed (V, 4); and they are to "ensure that wheat for export is at all times on sale at f.o.b. prices not in excess of the maximum equivalents [V, 5]."

This last provision raises an issue of some practical importance. Suppose one exporting country has exported its full quota, and is able and willing to export additional amounts at f.o.b. prices within the limits specified. Suppose importers are eager to get additional amounts from that country, on terms at which its exporters are willing to sell, in preference to drawing such quantities from exporting countries that have not yet exported their full quotas. Such eagerness might be due to any one of several causes, one of the most impor-

tant of which would be the availability of desired qualities at reasonable price differentials. Can the desired sale be made and the wheat move into export?

As we interpret the Draft Convention, the provision last quoted would permit the sale to take place, but the export-quota provisions would prevent the wheat thus sold from moving until the new crop year opened. In our judgment, this restriction would gravely weaken the protection accorded to importing countries by the "at all times on sale" provision. Continuous access to exportable surpluses would be effectually denied. Wheat importers would presumably try, by regularly holding large enough stocks of various import wheats, to insure against being caught short of any during the closing weeks or months of the quota year.

The criteria laid down to guide the Council in arriving at either basic level or price differentials are most vague and general. Prices so fixed are to be

such as will in the opinion of the Council (a) return reasonably remunerative prices to producers in exporting countries, (b) be fair to consumers in importing countries, (c) be in reasonable relationship to prices of other commodities and (d) make appropriate allowance for exchange rates and transportation costs. [V, 2]

These are the provisions that are to come into effect among the five countries "on the cessation of hostilities or such earlier date as they may agree," provided the actual price determinations are made "by unanimous consent." Pending such determination, for not more than six months after the cessation of hostilities, export prices of wheat are to be maintained at equivalents of "the last price negotiated by the United Kingdom for a bulk purchase of wheat from the principal country of supply"—which the controlling Minute specifies as Canada (above, pp. 40, 41).

Official comments make clear that various delegates entertained grave fears that, in the absence of an international agreement, the end of World War II would soon be followed by the outbreak of "a wheat war . . . with its serious economic and political repercussions," a "collapse of the wheat market" with prices falling "to new low levels," and gen-

<sup>1</sup> See above, p. 27. Baron de Hevesy, who has been an ardent advocate of an international wheat agreement, formerly believed strongly in the virtues of price-control provisions. In his latest work, completed in August 1939 and published in 1940, de Hevesy retracted this view and argued against it. *Op. cit.*, pp. 106-10.

eral resort to "cut-throat competition."<sup>2</sup> One is fully warranted in inferring that the price-control provisions of the Draft Convention were formulated with the prime objectives of contributing heavily to avert such dangers, and of holding prices of wheat moving in international trade above levels to which they might otherwise fall. In a paragraph under the heading, "The Stabilization of Prices at Levels That Are Considered Fair to Both Producers and Consumers," Boals puts the argument thus: <sup>2a</sup>

It has generally been assumed that low world wheat prices favored importing countries, but the experience of the past decade has shown that this is not universally true. Low world wheat prices, probably more than any other factor, were responsible for protective measures adopted for domestic wheat producers in importing countries. Furthermore, with few exceptions, consumers in importing countries did not enjoy any advantage of the low wheat prices. The bulk of the bread they ate was made from higher priced domestic wheat or imported wheat that was considerably increased in price by tariff duties, taxes, etc. Nor was this the only result of low export-wheat prices in the exporting countries. The low price received for export wheat reduced the purchasing power of the wheat-exporting countries for goods from other countries, notably the wheat importers, which, in turn, adversely affected their national economies. This development has now been recognized, and it is a basic reason for the price-stabilization feature of the agreement. In addition, it is hoped that with some price stabilization of wheat it may be possible to lessen some of the sharp swings of general agricultural prices.

Here it is relevant to recall what de Hevesy reported hearing of the ideas among the con-

<sup>2</sup> Boals, OFAR, pp. 22-23, 29; Wheeler, *op. cit.*, pp. 87-88, 95-96, 99-101. <sup>2a</sup> OFAR, pp. 28-29.

<sup>3</sup> Our computations. Cf. weekly averages in WHEAT STUDIES, September 1939, XVI, 38. The Winnipeg price of this grade in August 1939 was 48 cents.

<sup>4</sup> The Argentine Minister of Agriculture, commenting on the agreement, is officially reported to have said that under it the f.o.b. price of Argentine wheat would not be less than 8 pesos per quintal (equivalent to 65 U.S. cents per bushel), "si prevalecen las condiciones económicas de preguerra." *Boletín Informativo*, July 15, 1942, p. 367. The actual average price of 78-kilo wheat in Buenos Aires in the year ending with July 1939 was 59 cents a bushel, and it had run lower than this in each of the five years' ending with July 1935. WHEAT STUDIES, December 1939, XVI, 200.

ferees who represented the "Big Four" exporting countries in August 1939 (p. 27). The proposed world minimum price of 32s. per quarter for Manitoba No. 3, which he mentioned, was then equivalent to 92 cents per bushel (U.S. and Canadian cents differed by only  $\frac{1}{2}$  per cent). In that month the price of this grade averaged 63 cents (U.S.) in Liverpool.<sup>3</sup> Assuming, as it is surely safe to do, that the basic price under discussion was a British import price, the minimum figure reported was thus about 46 per cent above the market. Representatives of the four exporting countries were evidently contemplating that the export-quota and minimum-price devices would be employed to raise the international market price markedly above those determined by prevailing supply-demand conditions, influenced as they were by government policies. We believe it safe to accept this much as a fact, even if de Hevesy's figure was inaccurate and even if agreement might have been reached on a lower one.

We remain in the dark, however, about the specific ideas as to price levels that were entertained or discussed at the Washington Wheat Meeting.<sup>4</sup> If the divergence of views on this point was wide, this may have constituted one major obstacle to defining the criteria for determining basic minimum and maximum prices in any useful fashion. In any event, the issue was deferred. The Memorandum of Agreement significantly provides that "unanimous consent" as to the initial price determinations should be an essential prerequisite to bringing the principal price-control provisions of the Draft Convention into operation before the proposed international wheat conference is held (above, p. 40). For the time, this is a useful safeguard.

The brief price-control provisions are so important that they call for extended comment, with respect to (1) the criteria for determining basic prices and the spread between them, and available indications as to the actual choice that would presumably be made; (2) the significance of fixing basic minimum and maximum prices in August for a full year ahead; and (3) the problem of determining the prescribed series of differentials and changes therein.

## DETERMINATION OF BASIC PRICES

The most crucial point in the entire Draft Convention concerns the determination of basic prices, most especially minimum prices. Unless this is clear, neither the participating governments nor the farmers and other private interests concerned can have any clear idea of what the agreement adds up to. Unfortunately, the stated criteria for fixing basic prices are extremely unsatisfactory, and would be found to give no clear guidance in practice. Here is "one of the outstanding defects of the Convention," as the London *Economist* said in its initial comment.<sup>5</sup>

First, what are "reasonably remunerative prices to producers in exporting countries"? A well-equipped research body, provided with all the facilities for its task, could hardly arrive at useful answers before they were out of date. In each country, there are marked differences in costs of production among different regions and among individual wheat producers within each region, even in terms of averages over a period of years. These differences have undergone substantial changes, and are subject to further change. Especially in the United States, but in Canada also to a greater extent than in Argentina and Australia, there are regional differences not only in costs but in prices, which are by no means constant. There are changing price differentials for type, grade, and quality. What are "reasonably remunerative prices" depends also on the accident of yields in a particular season. In Canada, for example, 90 cents at Winnipeg might be a highly remunerative price if the Prairie Provinces harvested and could sell over 500 million bushels, but a low price if the crop were under 200 million, and a moderate one if (as this season) they could sell only 280 million or less. Current United States prices would probably be reasonably remunerative to growers of the bulk of the 1942 crop if it had been 700 million bushels, but are unreasonably remunerative with record yields and a crop of nearly 1,000 million.

If a level of wheat prices "reasonably re-

munerative . . . to producers in exporting countries" could not in fact be ascertained, could the Council fall back on prevailing *ideas* as to such prices? These vary greatly from country to country. They have been moderate in Argentina and Australia, definitely higher in Canada, and far higher in the United States, to say nothing of the ideas in nations that export lesser quantities. For most of these countries, however, we can cite no crystallization of "fair price" objectives.

How high the price ideas are in the United States can be inferred from the "parity-price" formulas embodied in successive laws; from persistent efforts to revise these formulas so as to yield higher parities; from legislation assuring American wheat growers nonrecourse loans at not less than 52, then 85, and now 90 per cent of parity;<sup>6</sup> from repeated efforts to raise loan rates to full parity levels; and from federal payments to supplement growers' returns from sales and loans. There is not the slightest doubt that the October 1942 parity price of wheat, \$1.36 per bushel average farm basis, would be highly remunerative to American wheat growers in a year of only average yield per acre. Prices well below the lower parities prevailing in 1935-36 and 1936-37 stimulated expansion of our wheat acreage to an all-time peak in 1937. The record of more recent years abundantly proves that such a policy has led to unreasonably remunerative returns to wheat producers here, and that it overstimulates our wheat production in spite of measures to hold acreage in check.

Unless and until these price ideas are radically revised downward, the Council could not fix export prices that could be officially approved here as "reasonably remunerative" to American wheat growers. We are convinced that the attempt would not be made. Instead, so long as American agricultural policy continues as it is, the compromise export prices fixed would be such as ordinarily to require some form of subsidy to move the amount of the export quota assigned to the United States (p. 63).

The plain fact is that, in various exporting and importing countries, powerful political pressures are brought to bear to raise wheat

<sup>5</sup> July 11, 1942, pp. 50-51.

<sup>6</sup> The 90 per cent rate, authorized by recent legislation, is not yet in effect.

prices to levels remunerative to high-cost producers, to prevent the elimination of submarginal production, and to maintain prices at levels that effectually stimulate the production of larger amounts than can be absorbed at that price level. Here is one fundamental reason for the persistent tendency to wheat surpluses in the United States and in the world as a whole. The wording of the criterion in question weakens, instead of strengthens, the position of the Council in resisting such political pressures, renders more likely the fixing of basic minimum prices at levels uneconomically high, and tends to obstruct its contribution to the solution of the surplus problem.

One qualification of these observations is essential. The ideas of American officials as to what are "fair" or acceptable prices for our wheat exports are both moderate and flexible. For the small fraction of our production that moves into export, any price is likely to be considered better than none, and even donations may be considered preferable to not moving the wheat out. While these official attitudes prevail, we anticipate that no difficulty would be encountered in getting United States delegates to agree to export prices that other delegates would have to ponder very seriously. But such American official ideas would provide no clear basis for price determination.

The second criterion set forth, prices "fair to consumers in importing countries," is most nearly crucial for the United Kingdom. For a decade, Britain's wheat policy has insured moderate prices to her consumers while guaranteeing high prices to home growers of wheat. British representatives could probably be counted upon to argue strongly that fairness to British consumers necessitated moderation in fixing minimum f.o.b. and c.i.f. prices; but this would be mainly a useful talking point, not the decisive argument in their case.

Almost everywhere else in Europe, in the years before the present war, wheat policies forced consumers to pay dear for wheat products, and such prices were presumably considered, by those in positions of authority there, "fair" under the circumstances. If sim-

ilar policies should be resumed, such governments could hardly argue that fairness to their consumers required substantially lower prices of import wheat. This, however, would be beside the real point. Even before the present war, European governments were concerned to secure their wheat imports at low prices, and they will be forced to put even greater emphasis on this when the war is over. So also, in all probability, will the British. It is primarily such considerations that would influence their representatives on the Council in this matter. They would feel, as do the governments in exporting countries, that the prices charged their domestic consumers are their own affair. They have been and will be concerned to prevent low import prices from ruining their agricultural programs, even if—as is strongly to be hoped—those programs are materially revised; but in such protection they have had much experience. Few would feel concern, as the British Government might, lest wheat import prices be so low as to reduce the purchasing power for their exports in wheat-exporting countries, or as to bring about economic collapse there with its international repercussions.

At present it is impossible to foresee how far the interests of consumers in China and many other ex-European countries would be represented, or would be considered by the Council in the absence of such representation. Despite some hints in the Preamble of the Draft Convention (p. 45), we can feel no assurance that the Council would feel compelled to give these the weight that they deserve. In the light of experience with imports into China, which have tended to vary inversely with the price of wheat, there is clear danger that prices would be maintained at levels restrictive of exports to various ex-European countries. If differentiation of export prices in favor of these markets should prove feasible within the framework of the agreements, we find no basis for such differentiation in the documents thus far made public.

In the perspective of experience, the world is not warranted in taking seriously the various protestations regarding the interests of consumers, especially in view of the weakness of positive provisions to protect con-

sumer interests. Partly on this ground, in this country, Secretary Wallace urged the necessity of ever-normal-granary stocks. If he had had a free hand to administer the program, his action might perhaps have borne out his arguments. The actual practice has not. He protested in vain the legislative boosting of loan rates. By measures dictated by Congress, wheat prices have been forced up even while surplus stocks were rising to hitherto unprecedented levels; and disposition of surplus wheat, even for livestock feed, has been hampered while retail prices of animal products have risen impressively and livestock raisers have complained of their high costs. The opportunity to give consumers the benefits of abundant supplies of wheat has been rejected, under political pressures, despite strong administrative efforts to overcome such pressures.

A recent episode is worth citing, despite the lack of close parallelism. The Inter-American Coffee Agreement, retroactively effective as of October 1, 1940, contained no price provisions. The United States Department of State, in its press release of April 10, 1941 announcing the formal ratification of the agreement, spoke of it as "an attempt to provide effective measures for bringing the supplies of coffee in the international markets more nearly into line with existing demand at prices which will be reasonable to both producers and consumers." The similarity in language will be noted. A reasonable objective of the coffee plan was to prevent prices from falling disastrously lower under wartime conditions, but some increase from the low levels that had prevailed in 1938-40 was clearly contemplated. Price recovery began while the negotiations were under way, and continued after signature of the agreement on behalf of the United States.

Then, in the face of an extraordinary surplus over what could be marketed, an extraordinary price advance occurred in the first half of 1941. In the year ending with August 1941, New York prices of representative grades roughly doubled in price. When protests even in official United States circles accumulated, further advances were indeed checked by drastic upward revisions of quotas

for export to the United States. But when price ceilings were established in December 1941, they were close to the peaks of the preceding August. Though by no means as high as during the years 1923-29, these prices are considerably above levels reached in the decade 1931-40, and yield Latin-American coffee growers such good returns that Uncle Sam's generosity is regarded as amazing. The additional cost to the American public will probably be well over 100 million dollars. In view of the special political considerations involved in this instance, we are not ready to assert that this cost is excessive, but the episode shows how indefinite in meaning are such phrases as "prices reasonable to both producers and consumers."

Reasonable relationships between wheat prices and prices of other commodities—the third criterion specified—are indeterminate. Specialists can compute average relationships, which vary in different periods and for different countries. A few experts might ascertain what relationships would be rational under different conditions, given specific objectives. But what is "reasonable" is necessarily a matter of opinion. It is not too much to say that the existence and recurrence of the wheat-surplus problem have been due in large measure to the ignoring of rational, economic relationships, and to political insistence on regarding uneconomic goals as "reasonable." At best, this proposed criterion would preclude the choice of prices that would be unlikely to be considered on other grounds. At worst, it would injuriously inject extraneous considerations, as the parity concept has in American experience.

The price provisions also give no clear guidance in determining the spread between the minimum and maximum prices. This is too vital a matter to be left to the changing opinion of a Council of shifting membership. The narrower the spread, the more rigid and vexatious in practice would be the effective restrictions on export sales. The wider the spread, the less significant would be anything but the minimum prices. Until more clear-cut principles are embodied in the Council's "charter," participating governments can have no clear idea of what they are agreeing to. As the provisions

stand, we infer that the Council would give very serious attention to the fixing of minimum prices, take much less seriously the determination of maximum prices, and provide for a fairly wide spread between them. But the present Council, or the one that exists when the price provisions come into force, might take a different position.

The maximum prices would probably be most influenced by the ideas of representatives of the exporting countries as to the level at which they could safely undertake to "ensure that wheat for export is at all times on sale" during the year in question. In our judgment, literal compliance with this provision would force fixing the maximum prices unnecessarily and unreasonably high, for importing countries do not need the assurance of being always able to buy in *each* of the exporting countries. If considerations of "fairness" to *consumers* in importing countries figured at all, it would presumably be in keeping the maximum prices somewhat lower than they would otherwise be. British representatives could certainly be counted upon to insist that maximum prices be as low as representatives of the exporting countries could be induced to agree to; but consideration for British bread consumers would be only one of several reasons for such insistence. If more importing countries accede to some such agreement, the others would presumably vote with Britain on such issues. If importing and exporting countries should have equal weight in voting, such decisions would not be easily reached.

In the absence of specific evidence to the contrary, we deem it reasonable to infer that, in practice, the Council would arrive at a basic minimum price that representatives of Canada, Argentina, and Australia regarded as "reasonably remunerative" to their producers, and that British representatives considered acceptable to the United Kingdom as a nation rather than "fair" to its wheat consumers as such; and that this would be as far above the level that would otherwise prevail as the United Kingdom (and other importing countries represented) could be induced to stand for. If so, the British would presumably exert a decisive influence, and a salutary one. As

the Draft Convention stands, Britain could be outvoted, after the initial price determination was made by unanimous vote;<sup>7</sup> but we are reluctant to believe that her representatives would exert influence solely in proportion to their voting power.

We feel strongly, however, that no international agreement should be adopted with price-control provisions at once so drastic and so loose as those in the present Draft Convention. It is incumbent upon those who support it, or any agreement of this type, to set forth in unmistakable language workable principles or criteria that they propose should be followed in arriving at specific price objectives or minimum and maximum prices. The matter is of fundamental, far-reaching importance. In the United States, in particular, we have already had far too much experience with political juggling of prices of agricultural products, under plausible slogans such as "adjustment," "stabilization," "parity," and "ever-normal granary" but with utter disregard of economic values and economic consequences. It will be tragic if such experience should be repeated in the international sphere.

More reasonable principles of price determination can be formulated, assuming resort to fixing basic minima and maxima. With a commodity that tends to be produced in surplus amounts, as is true of wheat, sugar, and coffee, any such basic minimum prices should be low enough to induce heavy consumption of the commodity and to exert pressure on high-cost producers, wherever they are, to quit producing wheat. If, as has been true with wheat in recent years, huge surpluses tend to accumulate in exporting countries, minimum export prices should be such as to induce a heavy flow of wheat in international trade, to China and Manchuria as well as to Europe, and for feed as well as food use. Though we hesitate to recommend two- or

<sup>7</sup> With this and other exceptions already noted (p. 40), a two-thirds majority of the five countries is required for decisions under the Memorandum of Agreement. In the absence of corresponding provisions in the Draft Convention, decisions under it might be taken by simple majority vote, as is specified respecting decisions of the Executive Committee (VIII, 6). But we cannot predict what the voting provisions to be added to Article VII may contain.



three-price systems, something is to be said for permitting exports for feed use, and to various non-European destinations, at prices lower than the minima fixed for ordinary exports. To induce importing countries to curtail and restrict their production, they may well be offered the joint guarantee of the chief exporting countries, not for a year but for a decade, that, on conditions with respect to this point, they can absolutely count on importing wheat up to liberal maximum amounts at not in excess of specified, moderate f.o.b. prices in one or more leading exporting countries. If the device of reserve stocks is adopted, in order to render such guarantee feasible and in order to keep price fluctuations within much narrower limits than hitherto, the objective should be not only to prevent extremes of high and low prices but to maintain the average level no higher than is necessary to insure continuing abundance.

We venture to believe that the considerations here proposed deserve to be called "principles," and at least suggest criteria that could be made sufficiently concrete for practical application. This is arguable, but in our opinion they would afford safer guidance than do those embodied in the Draft Convention.

The observance of some such principles would, we believe, go far toward solving the surplus problem, toward promoting economical production, toward stability of prices and national economies, and toward raising the plane of living of the world's consumers. It probably has not yet been politically feasible to incorporate them into any intergovernmental agreement, but it may and should be.

#### OTHER COMMENTS

However the vexing problems of determining basic prices might be solved, in harmony or at variance with the terms of the agreement, it would not be easy for the Council to determine in August what basic minimum prices of wheat, even c.i.f. United Kingdom, would be appropriate for the entire international crop year ahead. In August 1933, a sustained level of 63 gold cents per bushel (for at least 16 successive weeks) was officially accepted as an appropriate minimum objective, as compared with actual June prices

of 51 cents, and a council with the powers now proposed might have put the minimum at or above 63 gold cents. The large surplus stocks then in existence seemed to afford assurance that short crops would cause no concern, and that large crops would not radically increase the surplus. Yet the goal proved excessive. In the face of the international measures taken to cope "constructively" with the situation, with only moderate enlargement of crop estimates after mid-August, and with international trade falling slightly below the forecast, prices fell to a level roughly represented by 43 gold cents for the year August-July 1933-34.<sup>8</sup>

Not infrequently, the appraisal of the world wheat harvest, and more often that of wheat crops in Europe or the overseas exporting countries, is altered after August to an extent abundantly warranting changes in the price level and in intercountry price relationships. The present scheme provides for no such adjustments until a year later. In practice, the Council would probably evade some of these difficulties by establishing a wide margin between basic minimum and maximum prices; but this would not prevent the minimum price from sometimes proving too high, and therefore operating with unintended as well as undesirable rigidity.

If in fact reserve stocks in exporting countries should be maintained at high levels, as the Convention contemplates (p. 53), the foregoing criticism loses some of its force; for the level of the wheat reservoir would be less affected by variations in annual output in exporting countries and by variations in aggregate takings by importing countries. Nevertheless, August is too early for more than provisional determination of basic minimum prices for the year then beginning.

In much greater degree this applies to the fixation of price schedules for different ports of export and for different types and grades of wheat.<sup>9</sup> The relative abundance of these is

<sup>8</sup> WHEAT STUDIES, December 1934, XI, 141-51, 195. Improvement of European crop prospects during the summer, and of Argentine crop prospects later, did prove important factors.

<sup>9</sup> On these subjects, we consider highly pertinent several passages in A. E. Taylor, "International Wheat Policy and Planning," WHEAT STUDIES, June 1935, XI, 359-404.

never safely predictable in August. On this point the able Canadian Wheat Board has sometimes gone badly astray, so early in the harvest season, with respect to Canadian wheat; the quality of European wheats is not yet determined; and August is much too early to know anything reliable about the volume or quality of new-crop Australian and Argentine wheats. Price differentials for type, grade, and source normally vary widely from their averages over a period of years.

The establishment of detailed price schedules for minimum export prices entails a vast number of decisions that might seem reasonable enough on the basis of historical averages but that would often interpose unintended and serious barriers to the free flow of the several wheats even within export-quota limitations. In the absence of such restrictions, the flow of wheats from different exporting countries, to different importing countries, and of different types and grades, is heavily influenced by considerations of relative cheapness, and differences of fractions of a cent per bushel are of practical importance. The range of prices of different wheats in importing countries is wide, but changing. To fix differentials would be to obstruct the flow of particular wheats that unexpectedly tended to be relatively abundant. In our judgment, even the allowable adjustments in f.o.b. prices for substantial changes in freight and exchange rates, and for carrying charges, would be impracticable to make on a really serviceable basis.

Conceivably, however, we may misconstrue the meaning and intent of certain words in the Draft Convention (V, 1): "schedules of prices, c.i.f. and/or f.o.b.," equivalent to basic prices c.i.f. United Kingdom ports, "for the various wheats sold in world markets." This seems to us to mean detailed schedules covering practically all types and grades of any sig-

nificance in international trade, from all export points. If it had been intended to leave wide discretion to the Council, the last phrase quoted might have read "for various wheats sold in world markets." Had it been intended that prices be fixed only for the most representative types, grades, and markets, the wording might have been "for representative wheats important in the principal world importing markets." If either of these latter interpretations is correct, the task of the Council's secretariat would be much lighter, the responsibility of the Council less onerous, and the price-control provisions more flexible in their operation.

The ostensible requirement for use of c.i.f. United Kingdom prices as a universal basis also presents special difficulties. In the past, there have been numerous occasions when price relationships did not permit wheat or flour to move to Great Britain from certain export sources (e.g., the Pacific Northwest, Australia, Hungary) but did permit movement to other export outlets (e.g., China, Malaysia, Switzerland). Literal application of the language quoted would uneconomically restrict the flow of wheat and flour to numerous lesser markets. If the price provisions give the Council leeway in this matter, we have not been able to read properly between the lines.

These matters might be of much smaller importance if, in practice, the International Wheat Council were to fix basic minimum prices in accordance with the considerations we have suggested. On the other hand, if the Council interprets the Convention as authorizing attempts at price boosting or price maintenance, vexatious and serious interference with the flow of wheat would be the rule; and commonly, not just infrequently, close policing of private trades in export wheat and flour would be essential.

## VII. CONCLUDING OBSERVATIONS

The foregoing detailed and somewhat technical discussion is necessarily subject to revision, with respect to facts, inferences, and judgments. The summary and concluding observations now offered are based in large

part on that analysis, but are also influenced by our tentative appraisal of a future that will only gradually unfold. They are put forward, with no pretense to adequacy or finality, in the hope of aiding the thinking of others.

From the Washington Wheat Meeting of the five nations with the largest stake in international trade in wheat, new international wheat agreements emerged in mid-1942. These involved:

(1) present commitments by the five countries to make donations to a "relief pool" of wheat, and by the four chief exporting countries to adopt or maintain positive measures to control their wheat production;

(2) the establishment of an International Wheat Council to administer these international arrangements and others that may come into effect during the war and after hostilities cease; and

(3) the publication of a draft of a fairly comprehensive international agreement, which is designed to be brought into operation among the five countries by degrees, as further decisions are taken, and also for submission, at some future date, to "a wheat conference of the nations having a substantial interest in international trade in wheat."

It was a constructive achievement to initiate even a small measure of co-ordination of the wheat policies of the five signatory countries. Furthermore, the steps on which agreement became effective at once seem timely, reasonable, and promising. The relief provisions, indeed, might well be imitated with some other surplus commodities, but do not need to be tied into a control system of this or any other type. The mild provisions for production restraints during the war, with a view to preventing further accumulation of excessive stocks of wheat, seem proper so far as they go; only their effectiveness is in question. It is appropriate to have set up an international council through which further steps in co-ordination of national wheat policies may be facilitated, even if its actual functioning is difficult to predict. The publication of a draft agreement, well in advance of the coming into operation of its major provisions, is a highly commendable move.

The approved Memorandum of Agreement, which brought into operation limited portions of the Draft Convention, is overshadowed by the main provisions of the Convention itself. These present an extremely ambitious scheme for postwar application. Because of its own

potential importance, and all the more because of official intimations that the Draft Convention is thought of as a model for other international commodity agreements, it deserves both wider and more penetrating study than it seems to be receiving.

#### THE WHEAT CONTROL SCHEME

The Draft Convention is not merely a draft. The wheat control system for which it provides is to come into operation among the five countries after hostilities cease, at some date to be agreed upon, unless meanwhile the present agreements are superseded by an international wheat agreement adopted at the more representative wheat conference intended to be held. The scheme provides:

(1) for large reserve stocks of wheat to be held in the four chief exporting countries—probably, though not necessarily, in large part by governmental agencies;

(2) for some sort of production restraints in those countries, if necessary either to keep carryover stocks within high maximum figures specified, or gradually to reduce them to these maxima if these are exceeded when the scheme becomes operative;

(3) for export quotas, apparently inclusive of relief donations and lend-lease shipments, subject to limited alteration under specified conditions; and

(4) for an elaborate system of price limits to be applied to wheat moving in international trade.

This ostensibly tight system bristles with restrictions affecting wheat stocks, production, exports, and prices. It represents a refinement of prewar models, such as enjoyed a certain vogue when the world was racked by depression and distraught by fears of coming war. New features include the provisions for retaining heavy stocks of wheat in exporting countries, and for fixing maximum prices at which those countries are to guarantee unlimited export sales. These appear designed as safeguards against "holding up" importing countries. These safeguards are weakened, however, by provisions for export quotas and price control which presage a far-reaching regimentation of international trade.

This scheme merits least criticism if it be

assumed to operate during a limited postwar period in which wheat will presumably continue under government control in the five participating countries, and while huge wheat surpluses exist in all or most of the four exporting countries. Then, as now, many of the influences that ordinarily determine wheat stocks, production, trade, and prices will operate, if at all, through official decisions within terms set by legislation. Both legislation and executive decisions in the different nations may be at variance, while the peacetime interconnections between the various wheat markets will be largely absent. Under such conditions, there are potential advantages in having some systematic limits upon national decisions affecting international trade in wheat, some ready means of mutual discussion, and some measure of co-ordination of actions.

For this purpose, however, the present document is needlessly elaborate, and the minimum-price provisions and the export-quota system could easily prove undesirably restrictive. In a period presumably ideal for liquidating excessive stocks as rapidly as possible, with shipping rates still relatively high, importing countries might well be encouraged to buy wheat at lower prices than the terms of the Convention appear to permit. Otherwise such countries may feel compelled to accept larger relief donations, lend-lease shipments,<sup>1</sup> or some equivalent of the latter such as are illustrated by wartime Argentine contracts with Spain.<sup>2</sup> The export-quota provisions might impose more stringent limitations on donations and lend-lease shipments of wheat from the United States than would be regarded here as tolerable.

It is impossible now to foresee all sorts of conditions that may have to be faced in the

<sup>1</sup> Lend-lease operations were not thought of when the present Draft Convention began to take form in 1938-39. They did not loom large when the preliminary sessions of the Washington Wheat Meeting were held. Their potential importance was probably not fully realized when the Convention was put into its present form.

<sup>2</sup> The fifth and latest of these was signed Sept. 5, 1942. It is significant that the preamble of this bilateral agreement states that both governments are fully in accord as to the advantages of multilateral trade.

postwar transition period, before and after the main provisions of the present Draft Convention are presumed to come into operation. It seems to us unfortunate, therefore, that the new Council is not given more explicit power and instructions to devise suitable additional or alternative measures, in some instances with and in others without resort to advance approval by the governments participating.

If the Draft Convention were designed only for the period above mentioned, it might be expected to contain provisions for readjustment to a period when government control boards will have ceased functioning. There are none. It seems tacitly implied, either that such boards will continue to operate throughout the prospective life of the comprehensive agreement, or that decontrol by national agencies will not materially affect the operation of the international control system in contemplation. We are unable to accept either implication.

In wartime, onerous and multifarious restrictions upon private enterprise and freedom of choice are accepted as essential to insure the maximum contribution toward victory. These are not likewise essential in peace. On the contrary, the war is being fought to regain and buttress the peaceful enjoyment of these and other "freedoms." We may confidently expect that, when hostilities cease, there will be urgent demands for the promptest possible relaxation and elimination of wartime restrictions and controls. Demands for premature decontrol may well be resisted, but provision will need to be made for genuine and orderly decontrol. As the period of wartime scarcities gives way to a period of relative abundance in peace, it will be appropriate neither to continue wartime controls nor to replace them by others calculated to preserve vested interests, restrict and canalize the flow of goods, and neutralize the force of prices in bringing about economic readjustments.

Under peacetime conditions, moreover, we believe that no governmental grain agency in the five countries concerned can operate with the efficiency and freedom from political pressures that the competitive grain trade (including experienced wheat pools and millers) can and ordinarily does. If this be true, no

obstacles to decontrol within a reasonable period should be created. While the Convention sets up no formal barriers, it seems to us that the stocks provisions, and the greater ease of enforcement of the price and export provisions under full government control, would tend to prolong if not perpetuate the national control systems in spite of their lesser economic efficiency.

By and large, however, the Draft Convention seems designed primarily for the period following conversion of war economies to peace economies. It is doubtless none too early to be drafting international agreements for that period. It was rightly held premature to bring this one now into full effect. Contrary to the present official view, we believe it will still be premature when victory has been won in Europe. The very constitution for a new postwar world is receiving serious consideration. This may take some years to evolve and adopt. It is important that specific elements should not be crystallized too far in advance of the general pattern, or be difficult to adapt to the pattern eventually adopted.

Viewed with reference to that period of hoped-for normal peace, the document contains not only gaps that remain to be filled, but defects of varying significance. Recognized gaps concern provisions for restricting wheat production in importing countries, and inducements by which their acceptance of such provisions might be secured; and voting rights of participating countries when their number shall have been enlarged. There are others. Procedures for settling issues of interpretation should be set forth. Provisions for amendment of the Convention within the term of its operation should be added, and the provisions for its reconsideration before expiration improved. We regard it as a defect that export subsidization is tacitly permitted, within only quantitative limits. The vague criteria for determining basic prices urgently call for redefinition.

Less specific but more fundamental are other defects. The Draft Convention conveys no assurance that exports and wheat prices would be regulated in such ways as to facilitate the liberal use of this abundant resource, to promote the expansion of international

trade in wheat and flour, to insure genuine freedom of access to and choice among the wheats available, and to facilitate the revival of private trade upon which expansion of normal trade and consumption will in part depend. On the contrary, both the formal terms and past experience with such commodity controls justify reasonable fears that the scheme would operate to restrict private enterprise, international trade, and wheat consumption. There is no indication that the system in operation would contribute appreciably to the solution of the wheat-surplus problem or to prevent its recurrence—unless one has a confidence, unwarranted by recent history, in governmental regulation of wheat production. On the contrary, there are patent dangers that the surplus condition would be perpetuated, that efforts would be made to maintain prices in the interest of wheat producers while holding surplus stocks at excessive levels, and that wheat consumers generally would fail to secure the benefits that abundant stocks and low-cost production should insure—until, as has happened before, abandonment of major elements in the system forced prices to distressingly low levels for producers.

Such a system as the Draft Convention outlines would, of course, be liable to breakdown. Inability to reach agreement on crucial specific decisions—such as basic prices, or the date of coming into effect of the export-quota provisions—might virtually nullify the entire scheme. Conceivably, the International Wheat Council might choose not to press for really effective production restraints, but estimate total import requirements liberally, fix basic minimum prices low, and perhaps even neglect to enforce the export-quota limitations. On the other hand, attempts to use the “teeth” that are provided might lead to early rebellion or withdrawal of one or more essential participants. In any such event, the agreement would be of small consequence, except in having raised hopes and fears that proved illusory; but such disillusionment we regard as dangerous.

Though as yet unsigned, the Draft Convention has apparently received a larger measure of governmental approval than we believe it

deserves. If the defects we discern are not mere figments of the imagination, it would be a serious mistake to regard this document as a model for other international commodity agreements. For a period as yet some years distant, it may be as obsolete—in basic design, however ingenious in detail—as a 1934 automobile or a 1939 airplane. The substantive provisions give little evidence of bold, constructive thinking in the light of ideas that are coming to prevail with respect to international economic policy in the postwar world. Both design and detail call for substantial alteration if they are to meet the needs of “the century of the common man.”

#### THE COUNCIL

Hope of progress toward wise solutions of world wheat problems lies in the existence and potential development of the International Wheat Council. It is already established on a higher status than was enjoyed by the Wheat Advisory Committee, which it supersedes. The Council is in the making, as to membership, organization, and functioning. It may come to naught, or it may grow into an important institution.

The proper province of the Council includes the consideration, on behalf not only of the countries now participating but also of others whose later accession is desired, of ways in which national policies in respect to wheat may be brought into harmony with one another and with the interests of the world's consumers and producers. The Memorandum of Agreement might well have so instructed it. For the present, its formal powers and duties seem to us unduly restricted, even if all the provisions of the Draft Convention that specifically relate to the Council and its Executive Committee were now fully operative. If the Council chooses, or feels constrained, to interpret these provisions strictly and conservatively, many of its opportunities will be lost. If it proceeds to make the most of its opportunities, and secures the backing of the signatory governments in so doing, it may contribute much.

In our view, the Council should not be content to regard the Draft Convention as a final, finished product, ready to be laid before an

international conference at some indefinite date in the future. It should not resent, but welcome, both internal and external criticisms of that document. It should endeavor to work out remedies for such defects, both minor and major, as may be brought to light. It should take full cognizance not merely of the changing world wheat situation, but also of the evolving fundamental philosophy of international relations and of the growing structure of something approaching a world government. It should undertake to mature proposals, for recommendation when the time is ripe, for more or less substantial modification of the Draft Convention. It should meanwhile propose such additions to the Memorandum of Agreement as would strengthen the participating nations in grappling with world wheat problems pending the proposed international conference.

One ground for doubting whether the Council will measure up to its early opportunities lies in the fact that the initial membership is so largely drawn from those who drafted the present agreements and who may therefore repose undue faith in them. Both the membership and the members' ideas, however, are subject to change.

We regard it as unfortunate that Article I of the Convention is not to be considered in effect for the duration of the Memorandum of Agreement. Its first two paragraphs (see p. 45) express a highly commendable philosophy with respect to “the adoption and pursuit of national and international policies aimed at a fuller and more efficient use among nations of human and natural resources and thereby a world-wide expansion of purchasing power.” These merit expansion into a series of broad principles to govern all sorts of international commodity agreements. Its final paragraph instructs the Council “from time to time [to] submit to the contracting Governments a review of international trade in wheat and invite them to consider, in the light of the foregoing, what measures may be adopted for the expansion of such trade.” It is not too early for such instructions, if possible somewhat broadened, to be brought into effect, even if the implementing of proposed measures would have to be deferred.

## PROSPECTIVE POLICY FUNDAMENTALS

The dominating objective of national and international policy, it is coming to be realized, should be the progressive raising of consumption levels and planes of living of the world's peoples, varied as their standards must be. Among other things, this implies improved nutrition, better health, increased national and personal security, and enlarged individual freedom. Pursuit of this objective involves extending the scope and duration of peace, fuller development and utilization of the world's human, material, and spiritual resources, enlarging the volume of international trade in commodities and services, both damping and mitigating the effects of economic fluctuations, and giving scope and stimulus to individual initiative and private enterprise within the framework of necessary public regulation. If such aims are to be realized, further steps in the evolution of international policy and machinery are called for. On these steps, much remains to be done before a consensus is reached.

It may be that, as some farsighted individuals are now urging, a substantial beginning on a new world government may be made during the present war, to be further matured and perfected after hostilities cease. The United Nations are a going concern, if not yet either a league or an entity. Conceivably some sort of organic unit, open to additional adherents, may emerge from this fighting federation, as the United States emerged after the 13 states outgrew their loose Articles of Confederation. For anything approaching a durable peace, it now seems clear that the power of individual states to wage aggressive war must be held in check by giving to a world authority both the right and the power to cope with threats of aggression and to put down actual outbreaks. Some such political achievement seems essential to prevent fear of another great war from stimulating national policies of self-sufficiency and thwarting the revival of normal trade.

Even if such an approach to world government should become a reality, it will presumably be accorded only limited powers. Constructive regulation of economic and social activities by the United Nations of the world,

to the extent that it may be undertaken, may well rest upon international agreements rather than upon anything approaching world legislation. There is considerable scope for such agreements, and some of these will doubtless relate to specific commodities.

The United Nations should, as soon as war pressures permit, reach agreement on certain principles that should govern whatever specific international agreements, both private and intergovernmental, may be formulated with respect to the international exchange of commodities and services among them. The groundwork for such principles is already laid both in the Atlantic Charter and in the Mutual-Aid Agreements of 1942.<sup>3</sup> Suggestions toward the evolution of these principles have been incorporated in addresses of leading statesmen of the United Nations during the past year. Some of these, indeed, appear in the second half of the Preamble and in Article I of the present Draft Convention.<sup>4</sup> They need to be more fully developed and integrated.

For the near future, at least, it would not be essential that such broad principles be adopted by an all-inclusive world authority, or made enforceable by its machinery. The concurrence of the few most powerful of the United Nations would suffice, if no other adherents could be secured at the outset. But those principles should be regarded as controlling international commodity agreements to which the adhering

<sup>3</sup>Witness the references in the former document to "the enjoyment by all States . . . of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity"; "the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic adjustment and social security"; and the ideal that "all the men in all the lands may live out their lives in freedom from fear and want." Witness the references in the later documents to repayment of lend-lease advances on such terms "as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations"; "provision for agreed action . . . , open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples"; and the reduction of tariffs and other trade barriers.

<sup>4</sup> See above, pp. 44-45.

nations were parties. Nor would it be essential that such agreements should be all-inclusive. They should be open to all nations, and be such as to attract adherents and not to stimulate adverse actions by nations not adhering. If they are, initial participation by only the nations with substantial interests in the commodity would suffice.

A further step seems desirable if resort is to be had to numerous individual commodity agreements. An international commodities council should be set up, to insure that such agreements are made and revised in conformity with the agreed principles, and that the execution of those agreements by individual commodity councils is kept continuously in harmony with the broad policy. Such measures would lessen the dangers of undue influence by pressure groups and of operation at cross purposes.

International commodity agreements drawn in consonance with such principles, and executed in the same liberal spirit, may serve valuable purposes in the postwar world. Our fundamental criticism of the Draft Convention for wheat is that it is conceived in a restrictive spirit that is persistent and powerful, and that the control scheme it outlines could be expected in practice to hamper instead of to promote improvement of consumption levels and expansion of world trade. If all or most of the foodstuffs and raw materials that are important in international commerce were covered by agreements of this type, trade would be straitjacketed as perhaps never before in time of peace. Such alleged "rationalization" seems to us irrational. In harmony with broad declarations of policy that are in some degree embodied in portions of the Convention itself, the scheme should be revised.

#### SOME FINAL CONSIDERATIONS

In the light of these general observations, let us return to wheat. Here is a highly important basic foodstuff, widely grown and more widely consumed. It can nowadays be produced cheaply and in abundance, and in peacetime transported cheaply too. It should be continuously available to the world's consumers at prices corresponding to the cheapness with which it can be grown and trans-

ported. A broad base of common interest lies in the desirability of enlarging the consumption of wheat, especially for food, but in increasing measure for feed also.<sup>5</sup> Such enlargement is possible, on a considerable scale, if only national policies permit. The best safeguard against uneconomic contraction of wheat production in low-cost regions lies in enlargement of aggregate wheat consumption at prices that look low in historical perspective. But it seems to require a major readjustment of ideas and policies to welcome abundance and accept low prices as an appropriate means of putting abundance to use.

It is necessary to bear in mind that as consumption levels are raised, those on the lower levels tend to eat more wheat per capita, in preference to cereals they regard as inferior, while those on the higher levels tend to eat less wheat per capita as its place in their diets is partially taken by other foods regarded as preferable.<sup>6</sup> The latter is a principal source of further reduction in the demand for wheat as food. But two important types of potential additional demand remain to be tapped: those of peoples hitherto forced, by economic conditions influenced by national policies, to eat cheaper cereals which they would gladly displace by wheat; and those arising from the eagerness of other people to consume additional animal products, for which cheap wheat would afford both margins of purchasing power and, as feed, means of cheapening the animal products desired. A substantial net enlargement of wheat utilization, for food and feed combined, is possible if wheat is cheap enough to render these two types of demand effective.

One of the major obstacles to the wise evolution of wheat policies lies in political resistances to the cheapening of wheat. Improvements in transportation, and advances in agricultural science, technology, and practice, have made possible substantial reductions in the real costs of producing the world's wheat, as compared with the real costs of only 30 years ago. National policies in various coun-

<sup>5</sup> Industrial outlets are not likely to absorb significant quantities under peacetime conditions.

<sup>6</sup> M. K. Bennett, "Wheat in National Diets," *WHEAT STUDIES*, October 1941, XVIII, 37-76.



tries have nevertheless forced such uneconomic distribution of that production that average actual costs have fallen by much less, and price-supporting measures have tended to force up marginal costs, even in the United States. If a nation chooses to subsidize any group of its people, that is doubtless within its province to decide. But it is not in the general interest, within the country or beyond its borders, to employ methods that distort costs and prices of commodities.

Paradoxically, one of the most important reasons for recurrence of abnormally low prices of wheat has been resistance to its normal cheapening. As one reviews the wheat history of the period 1919-39, it is impressive to observe that when wheat was relatively scarcest, as in 1919-20, 1924-25, and 1937-38, the accompanying high prices in exporting countries were politically considered most nearly normal. Prices considerably below these levels were highly stimulating to wheat production. Steps were repeatedly taken to raise wheat prices above levels that were currently considered low, when they were not low in relation to supplies available. By restraining disposition, supporting prices, and stimulating production, wheat surpluses were backed up, and at least in some areas the resistance to price recessions was broken down.

All too commonly, and especially here, wheat-price policies have been designed in the supposed interests of politically powerful wheat growers, and often run counter to the interest of farmers as a whole as well as to consumer interests. In many countries the chief possibilities of improved economic remuneration of farmers include not merely diverting many of those now on farms into industrial and service occupations, and raising the level of farming efficiency, but also increasing the demand for farmers' services through enlarging the supply and lowering the cost of animal products which are needed for better nutrition. Cheap wheat can make a constructive contribution both to improvement of nutrition and to the betterment of the incomes of farmers as a whole.

Some of these facts are given incidental recognition in the Draft Convention, but its

main provisions fail to reflect their influence. They seem inspired primarily by fears on the part of representatives of the exporting countries—fears of international competition and cheap wheat. A prime objective is to insure against low prices, rather than to make adaptations to prices that would still be considered low. Enlarged consumption of wheat is relegated to a minor place in the whole scheme.

The provisions calling for maintenance of large stocks in exporting countries seem inspired by a dual motive: to ease the burden of production-control measures, and to give importing countries assurance against either scarcity or excessive prices of wheat. We envisage the possibility that they might cause prices of wheat in international trade to average lower than in the absence of the scheme, but it seems clearly the intention to exercise such control over the persistent surplus that such prices would average higher than in the absence of the system. We infer that representatives of the exporting countries hoped for price "stabilization" in the sense of enhanced average levels, while representatives of the United Kingdom looked with favor on the stocks provisions as a means of moderating price swings while insuring moderate prices.

If wheat can be kept both abundant and cheap to ultimate consumers, and if surplus producers strive to enlarge the import-purchasing power of wheat-deficit countries, many more consumers who prefer wheat to other cereals for food will be able to eat it freely, and larger quantities of wheat will be eaten. Moreover, with less expenditure required for the important wheat fraction of the diet, the world's consumers will have more to spend on other foods important for better nutrition, and/or for nonfood elements in their consumption level. If surplus wheat can be used to supplement feed grains, animal products may be cheapened. Not mere existence of wheat in exporting countries, but effective availability of wheat at fairly low prices to consumers everywhere, is the potential contribution to raising the plane of living of mankind.

In our judgment, if reserve stocks are to be held so as to smooth out variations in the world's wheat crops, these should be kept

within over-all limits necessary for this purpose; they should be held where they can be stored most safely, most conveniently, and most cheaply; and the price of wheat should include no more than normal minimum carrying charges. We do not consider the relevant provisions of the Draft Convention well devised to achieve these ends.

Lord Keynes has advocated an ambitious scheme for employing substantial stocks of basic commodities as a means of keeping price fluctuations of such commodities over a period of years within limits far more moderate than have hitherto been witnessed.<sup>7</sup> This general idea has adherents among English and American economists, and in some business and governmental circles, especially in connection with proposals for minimizing economic fluctuations and promoting continuously full employment. It deserves maturing into a concrete plan for consideration with reference to various staple foodstuffs and raw materials. While the subject is receiving attention from able minds, we are aware of no version that is yet ripe for adoption.

Without committing ourselves to such a scheme, we believe it worth exploring. It might be feasible to set up on agreed principles, under the supervision of an international commodities council, a company with some such name as United Commodity Reserves, Inc. This UCR could hold, for international disposal, what might be called equalizing, stabilizing, or surplus reserves of staple commodities such as wheat, sugar, coffee, tea, rubber, tin, copper, and perhaps also wool, cotton, and corn. It could determine what maximum volume of surplus reserves to hold, taking into account fluctuations in production, trade, and consumption. It could decide where to hold such reserves, and how often to turn over those

subject to deterioration. It could sell from these reserves to prevent prices from going too high, and build them up to prevent prices from falling too low. Any country that desired to dispose of surplus stocks internationally, and could do so only by subsidy, might perhaps be required to sell only to UCR. It might resort to differential pricing (with or without denaturing of food grains for feed use), if and when necessary to reduce surplus stocks.

The time may not be ripe for such a bold scheme. The whole idea of price stability may be overrated. It may not prove feasible to get agreement on the principles that should govern the operations of such a corporation, or upon the details of its operation with specific commodities such as wheat. The UCR would have formidable tasks. It would necessarily face some of the same difficult decisions that would confront the International Wheat Council and its counterparts, though it might do so in much broader perspective. It could probably hold adequate but smaller international reserves at lower costs, and better promote consumption and international trade, than would be possible under the terms of such agreements as the one embodied in the present Draft Convention. It is more of a question whether it could influence commodity prices in a manner acceptable to the various interests concerned.

As the major document in the new world wheat agreements, the Draft Convention appears to represent a logical development of one type of economic planning, with large emphasis on governmental and intergovernmental regulation. As a draft to be scrutinized in the light of prospective postwar needs, ideas, and conditions, we regard its publication as important. At present, we do not consider it in harmony with those needs as we envisage them, with the philosophy of international relations that we observe evolving, or with the politico-economic conditions that may yet be established. If it should be retained for early postwar application, it needs more or less modification for use in the transition period. Much more substantial changes are needed if it is to serve well in a world rededicated to freedom and progress.

<sup>7</sup> As first published, this proposal stressed Great Britain's need of commodity reserves against the danger of war. J. M. Keynes, "The Policy of Government Storage of Foodstuffs and Raw Materials," *Economic Journal* (London), September 1938, XLVIII, 449-60. Some of these ideas were elaborated, with special reference to wheat, in a memorandum presented in February 1939 to a subcommittee of the international Wheat Advisory Committee. See *Southwestern Miller* (Kansas City), July 18, 1939, pp. 19-20.

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## ANALYTICAL INDEX

- Acreage, wheat: allotments (U.S.), 35, 36, 55; Argentine, 37; "authorized" (Canada), 36; "licensed" (Australia), 37  
 Acreage reduction, wheat: in four exporting countries, 35-37, 55; under 1933 wheat agreement, 26, 54  
 Agricultural Adjustment Act: 1933, 34, 54; 1938, 34, 35  
 Agricultural Adjustment Administration, 34-36  
 Agriculture: British Minister of, 56; U.S. Department or Secretary of, 30, 35, 55; *see also* Wallace; Wickard  
 Animal products, 68, 77, 78  
 Appleby, Paul, 38  
 Argentina: attitude toward new agreements, 27, 32; legal status of present and future commitments, 34; and 1933 wheat agreement, 26, 63; wheat gift to Finland, 34 n.; wheat stocks data, 48  
 Atlantic Charter, 45, 47, 76  
 Australia: consultation of growers' organizations during Washington Wheat Meeting, 30; legal status of present and future commitments, 34; and the "relief" pool, 32  
 Australian Wheat Board, 42  
  
 Boals, Gordon P., 29 n., 52, 53 n., 54 n., 57-58, 65  
 Brebbia, Carlos, 27  
  
 Cairns, Andrew, 30, 38, 39  
 Canada: legal status of present and future commitments, 34; wartime position as wheat exporter, 25  
 Canadian Wheat Board, 30, 42, 71  
 Carlill, H. F., 30  
 Carr, R. M., 38  
 Carryovers, wheat: defined, 48; in four exporting countries, 41, 49-50, 51; U.S., 35, 63; *see also* Reserve or surplus stocks  
 China, 62, 67, 69  
 Coffee, 34, 68; *see also* Inter-American Coffee Agreement  
 Commitments effective immediately, 25, 31-42  
 Commodity Credit Corporation, 42, 48  
 Concluding observations, 71-79  
 Conferences, international wheat: London, 1931, 57; provisions for future, 25, 40, 72; technique of, 31; *see also*  
     International Wheat Agreement of 1933; Washington Wheat Meeting  
     Consumers, protection of, 43-44, 68, 74, 77  
     Consumption, wheat, desirability of expanding, 77, 78  
     Contingent agreements, 31-40  
     Controls, government, peacetime *vs.* wartime, 73  
     Controls, government wheat: effect of stocks provision on continuation of, 53; need for continuance after war, 41-42; wartime, 25, 27  
     Corn, 50-51  
     Costs of wheat production: reduction in, 77-78; regional differences in, 66; stimulation of production in regions of high, 28, 44, 55, 56, 61, 66-67, 69, 77-78  
     Cotton, 28, 34  
     Crop estimates, effect of errors or revisions in, on export quotas, 61-62  
     Crop insurance program (U.S.), 36  
     Crop year, defined for Southern Hemisphere, 48  
     Crops, bumper, 26, 35, 36, 49, 51  
     Customs tariffs, 44  
  
     Davis, J. S., 25, 26 n., 48 n., 54 n., 63 n.  
     Decontrol, 42, 73-74  
     Definitions, 47-49  
     Demand for wheat, potential, 77  
     Deutsch, J. J., 37, 38  
     Diver, J. W., 30 n.  
     Dodd, N. E., 30 n., 38  
     Domestic requirements, U.S., defined, 48  
     Draft Convention: gaps and defects in, 46, 47, 73-74, 77; nature of, 29, 40, 42, 72; philosophy of, 42-46, 47; provisions for expansion of, 44-45, 56; provisions immediately effective, 25, 29, 31-32, 37-40, 46; term of, 41, 47, 72; withdrawal provisions, 47; *see also* Export quotas; International Wheat Council; Memorandum of Agreement; Price control; Production control; Reserve or surplus stocks; Washington Wheat Meeting  
     Droughts, severe, 26, 35  
  
     *Economist* (London), 66  
     Ever-normal granary, 28, 52-53, 68, 69  
  
     Executive Committee of International Wheat Council, 32, 33, 37, 38-39, 40, 46, 75  
     Export quotas: basic, secondary, and supplementary, 57-59; ceding, transferring, or loaning prohibited, 59; difficulties involved in application of, 28, 61-63, 73; under discussion in 1939, 27; enforcement of, 28, 62; importance of, in commodity agreements, 57; under 1933 wheat agreement, 26; percentage distribution, 58; as possible barrier to international trade, 44; and production control, 54-55; provisions for, in Draft Convention, 25, 42, 57-61, 72  
     Export subsidization, wheat and/or flour: France, 60; under new agreements, 63; United States, 27, 28, 30 n., 63  
     Exports, wheat and flour: annually (1922-23 to 1941-42), 59; defined, 48  
  
     Famine and food shortages, effect of prospective, on production-control plans, 35 n., 56  
     Feed use of wheat: desirability of expanding, 68, 77, 78; United States, 34, 35, 48-49, 68  
     Finland, relief wheat donation to, 34 n.  
     Fixed minimum and/or maximum price for wheat: under discussion in 1939, 27, 65; for immediate postwar period, 41; not included in 1933 agreement, 63-64; problems of determining, 66-67, 70-71; provisions for, in Draft Convention, 25, 40, 42, 64, 71; *see also* Guaranteed price to growers; Price control; Prices, wheat  
     Food Research Institute, 48  
  
     Grain Regulating Board (Argentina), 37, 42  
     Greece, relief shipments to, 33 n.  
     Growers, wheat: danger of misunderstanding of export quotas by, 61; high- *vs.* low-cost, 44, 55, 56, 61, 66-67, 69, 77-78  
     Guaranteed price of wheat to growers: Argentina, 38; Australia, 37

- Hall, Noel, 38  
 Hevesy, Paul de, 26 n., 27, 54 n., 57 n., 58 n., 59 n., 65  
 Hudson, R. S., 56  
 Hull, Cordell, 45
- Import quotas (U.S.), 44  
 Importing countries, enforcement of wheat export quotas by, 28, 62  
 Industrial uses of wheat, 35, 42, 48, 77 n.  
 Inter-American Coffee Agreement, 53, 54, 68  
 Interim agreements, 40-42  
 International commodities council, 77, 79  
 International planning and collaboration, 25-26, 30, 57, 76-77; *see also* Postwar planning  
 International Wheat Agreement of 1933, 26, 29, 30 n., 47, 54, 57; wheat prices under, 63, 70; *see also* Wheat Advisory Committee  
 International wheat agreements: attitudes toward, 30, 32-33; difficulties in formulating and revising, 33; evolution of new, 26-29; need for, 25, 28-29; procedures in reaching, 30-31; vulnerability to breakdown, 32-33, 40, 46-47, 74; *see also* Draft Convention  
 International Wheat Council: composition of, 37-38, 46, 68, 75; duties, 32-33, 38, 39-40, 47, 75; establishment of, 32, 72; and export quotas, 54-55, 57, 58, 59, 60; finance, 37, 39, 46; meetings, 38; members, 37-38; need for, 30; and price control, 64, 66, 68-69; problems of, 49, 50-51, 53, 55-56, 74; and production control, 37, 54-55; relation to Wheat Advisory Committee, 39, 75; reports to and by, 39-40, 45, 60, 75, 77, 78; and reserve stocks, 50, 52; seat of, 38; voting in, 38, 39, 40, 46, 69, 74  
 Irish Free State, withdrawal from 1933 agreement, 26
- Keynes, Lord, 79
- League of Nations, 34 n., 47  
 Legislative and constitutional problems, 29, 34  
 Lend-lease shipments, and export quotas, 58, 72, 73  
 Livestock industry, *see* Animal products  
 Loan program and rates, wheat (U.S.), 36, 66, 68
- McCarthy, E., 38, 39  
 McClure, Wallace, 29 n.  
 McDougall, F. L., 38  
 Malenbaum, Wilfred, 26 n.  
 Marketing, "orderly," 25, 43, 61  
 Marketing quotas, Canadian, 36  
 Memorandum of Agreement, 28-29, 65, 72, 75; commitments embodied in, 32, 37, 38; executive agreement in United States, 29; understandings requiring further action and/or agreement, 40-41; *see also* Draft Convention; Washington Wheat Meeting  
 Minutes of Final Session of Washington Wheat Meeting, 32, 37, 38, 40  
 Mutual-Aid Agreements, 45, 47, 76
- Nutrition and wheat policy, 44, 45, 56, 77, 78
- Pacific Northwest, 36, 71  
 Parity price of wheat, 66, 68, 69  
 Pearson, Lester B., 38  
 Policies, European agricultural, effect of, on production-control scheme, 56, 67, 76  
 Political pressures, 54, 62  
 Pool, "relief" wheat: commitments to, 32-34, 72; desirability of, 28, 33, 43; and export quotas, 57-58, 72  
 Pools, Canadian and Western Australian wheat, 30, 73  
 Postwar planning, 33, 42-43, 73-74, 76-79; *see also* International planning  
 Price control: under 1933 wheat agreement, 63-64; as possible barrier to international trade, 44; problems involved in, 66-71; provisions for, in Draft Convention, 40-41, 42, 64, 72; purpose of, 64-65, 78; *see also* Fixed minimum and/or maximum price  
 Prices, wheat: desirability of low, 77-78; failure of 1933 agreement to raise, 26, 63; ideas as to what are "fair," 43, 64, 67-69; possible effect of reserve stocks on, 53, 79; problem of spread between maximum and minimum under agreements, 68-69; relation of size of crop and costs of production to remunerativeness, 66-67; *see also* Parity price
- Production control, wheat: attitudes toward, 30; Australian measures, 36-37; Canadian measures, 36; need for, in 1943, 34; under 1933 wheat agreement, 54; not achieved by acreage control, 35-37; present commitment on, 31, 34, 37, 40, 72; provision for, under Draft Convention, 40-41, 54-56; provision for expansion of article on, 42, 44-45, 56; purpose of, 79; U.S. policy of, 34-36, 66  
 Purpose of study, 25-26
- Quirno-Lavalle, M. E., 38, 39  
 Quotas, *see* Export quotas; Import quotas; Marketing quotas
- Relief use of wheat (U.S.), 34, 73; *see also* Pool, "relief" wheat  
 Reserve or surplus stocks: costs of carrying, 43, 53, 54; possible effect on wheat prices, 53, 79; provisions for, in Draft Convention, 25, 42, 49-54, 72  
 Rust, effect of, on production, 35-36
- Scope of agreements, 31-32  
 Scott Committee (British), 56  
 Shaw, A. M., 38  
 Shipments, wheat, accuracy of Broomhall's forecasts of, 62  
 Shipping problems, and export quotas, 59-60  
 Silver policy (U.S.), 54  
 Soil-conservation and parity payments and program (U.S.), 35, 36, 66  
 Speculation, effect of agreements on grain, 53  
 Stamp, Dudley, 56 n.  
 State, U.S. Department of, 68; *see also* Hull  
 Stocks, wheat: "excessive," 34, 51; nature of Argentine "commercial," 48; "permitted" excess and surplus, 51-52; present commitments concerning, 40; *see also* Reserve or surplus stocks  
 Storage problems, 34, 50; *see also* Reserve or surplus stocks, costs of carrying  
 Subsidies or bonuses to wheat growers, 44; Canada (acreage), 36; United Kingdom, 63; United States, 55, 63, 66  
 Sugar, 34  
 Surpluses, wheat, *see* Carriers; World wheat surplus

- Tax burdens, 54  
Taylor, A. E., 26 n., 54 n., 57 n., 70 n.  
Trade agreements: bilateral, 73; reciprocal, 29, 44  
Trade Agreements Act, 30  
Trade in wheat and flour, international: barriers to, 44; regulation of, under terms of Draft Convention, 25, 42, 72  
Twentyman, E., 37, 38, 39  
United Commodity Reserves, Inc., 79  
United Kingdom, wheat policy of, 67  
United Nations, 76  
USSR, 54; export sales (1930-31), 60  
Utilization, wheat, desirability of expanding, 77  
Varieties, wheat, relation to production, 36  
Viacava, A. M., 38  
Wallace, Henry A., 26, 27, 28, 68  
Washington Wheat Meeting, 28-29, 30-31, 65, 72; *see also* Draft Convention; Memorandum of Agreement; Minutes of the Final Session of the Washington Wheat Meeting  
Weather conditions affecting wheat, 26, 35, 36, 37, 54  
Wheat Act, 1932 (U.K.), 63  
Wheat Advisory Committee, 26, 27, 30, 32, 39, 46, 75  
Wheat Industry Stabilisation Board (Australia), 37  
Wheat Stabilisation Plan (Australia), 36  
Wheeler, L. A., 28 n., 34 n., 38, 39, 54 n., 57 n., 65 n.  
Wickard, Claude A., 28, 35  
Wilson, C. F., 38, 39  
World War II, effect of, on efforts for wheat agreement, 27, 57  
World wheat price, 26  
World wheat situation, position of signatory countries in, 25, 27-28  
World wheat surplus, 26-27; causes of, in 1930's, 44; dangers of postwar, 42  
Yields per acre, factors influencing wheat, 35-36

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