SOME ASPECTS OF COMMODITY POLICY

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Perhaps the best starting point for this paper is to set down what it does not cover. In the first place, it does not attempt to describe in detail the problems which countries exporting primary products have encountered through fluctuations in the prices received for their commodities. The instability of prices for most commodities entering international trade is well known and adequately documented. Secondly, this is not a discussion of the importance of exports of primary commodities to the economic progress of the under-developed countries, although this again is a subject of paramount interest in the field of commodity problems. This aspect is, of course, the subject of a growing volume of literature and it was touched upon 12 months ago by Sir John Crawford in his presidential address to this Society.[1] Not that there is not scope for more critical studies in this area particularly in the light of that over-used and rather meaningless statement that " a change of only 5 per cent in average export prices is approximately equivalent to the entire annual inflow of private and public capital and government grants to under-developed countries ".[2] The relationship of prices of primary products to manufactured goods is another topic which a discussion of commodity problems might be expected to cover but which is taken as read here.

All this illustrates the width of any broad treatment of commodity problems. The subjects mentioned above and those not listed are probably more important than what I do propose to examine—commodity policy.

Commodity policy may be defined as the extension into the international sphere of national agricultural (or mineral) policy. Thus it will be one purpose of this paper to examine the complementarity between domestic policies and those policies countries follow in attempting to sell abroad or protect their markets abroad.

It will immediately be argued that this is merely trade policy in another guise. I do not believe so. Trade policy in the language of the generals

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[1] Sir John Crawford, " Australian Trade Policy—Comment and Question," this *Journal* Vol. 3, No. 2 (July 1959), p. 1.

[2] See particularly various U.N. documents :

United Nations : *Introduction to the Annual Report of the Secretary General on the Work of the Organisation*, 16 June, 1955—15 June, 1956, (Document A/3137), p. 4. See also U.N., *Economic Survey of Asia and the Far East*, 1957, Bangkok 1958, p. 114. *International Labour Review*, June 1959, pp. 567-596. U.N., *World Economic Survey*, 1958, New York, U.N. 1959, pp. 6-7.

is rather the broad strategy behind a country's total export and import trade while commodity policy in the sense used here is but one of the tactical phases of the campaign (albeit, in Australia's case at least, a most important one). Indeed there are occasions when the commodity policies being pursued by countries are completely out of line with the broad objectives of trade policies. One only need cite the example of U.S. quantitative restrictions on dairy products as compared with American trade policies expressed in the G.A.T.T. and elsewhere.

It should be stressed at the outset that the objectives of commodity policy cannot be static. A policy appropriate in the world of agricultural surpluses is not necessarily applicable in a time of shortage, at least in all its purposes. The exception to this must, of course, be what is, after all, the basic objective of a nation's commodity policy and that is to maximize returns from exports under the prevailing conditions. Other considerations may at times determine that such maximization does not mean the sale at highest possible prices or the greatest possible quantities. Thus it might be necessary to discount this year's returns in order to maintain or expand markets in future years.

The setting for this paper is a world in which burdensome surpluses exist for important commodities ; where despite this situation important importing countries are increasing their relatively uneconomic production under the shadow of agricultural protectionism ; in which the world's wealthiest country is endeavouring to dispose of surpluses at gift or bargain-basement conditions ; and looming large in the background, a world in which under-developed countries are faced with rapidly rising population, insufficient food for many of their people and inadequate resources for the rapid economic expansion which they require. Moreover, it is a world in which the relationship of economic to political affairs is closer than at any time in the past.

For Australia the recent period has been one of semi-chronic balance of payments problems induced particularly by an extensive development programme coupled with a worsening in the terms of trade. It is true that the last year or so has witnessed some improvement, the permanence of which will depend basically on such things as the continuation of a large capital inflow, the import saving effects of investment in Australian industries, and on our ability to produce and sell abroad at satisfactory prices.

Our ability to produce and sell abroad at satisfactory prices will in the long run depend on the efficiency of our industries and on the promotion of their sales overseas but also on non-promotional methods of safeguarding and expanding markets for export commodities. Fostering of efficient production must be regarded as a function of an enlightened agricultural policy but the other two factors just mentioned come within the scope of commodity policy. In this exercise it is taken for granted that vigorous means will be adopted to promote sales abroad so that the emphasis will, therefore, be on those methods outside of direct sales promotion whereby markets may be retained or increased.

II

Despite some changes in emphasis during the period a main plank of Australian agricultural policy in the post-war years has been an attempt to provide price stability to industries which before the war showed considerable instability. In part the genesis of some of the stabilization schemes may be attributed to the study by governments and their officials and farmers and their officials of past slumps in prices ; equally important, however, was the fact that in the midst of the high level of demand for primary products internationally in the aftermath of the war, those same people could only view the future if not with absolute pessimism, at least with suspicion.

Thus the White Paper " A Rural Policy for Post-War Australia " in 1946 gave as the first of the general objectives of agricultural policy :

> " To raise and make more secure the levels of living enjoyed by those engaged in and dependent upon the primary industries."[3]

The measures by which such stability and security were to be obtained were listed in the following order : International Commodity Agreements, the Stabilization Policy (in that context, price control), Ceiling prices for Primary Products, Organized Marketing, Cost of Production Surveys. While price controls and ceiling prices have disappeared with some of the other ideas of thirteen years ago, the other three means of obtaining stability are still followed (although it may happily be true that there is not quite the same lack of sophistication as to what costs of production surveys can and cannot do).

There has as a result been a close relationship between the stabilization schemes that have been introduced for various commodities and the commodity policy which Australia has followed abroad. This has been most closely exemplified with wheat and sugar where international agreements have had a direct bearing either on government guarantees, as in the case of the 1954 wheat stabilization scheme or on production levels as with sugar. The lack of an international arrangement coupled with the unsatisfactory overseas price outlook has led to the guarantee to dairy farmers applying only to local consumption plus a 20 per cent margin beyond that.

With wheat, sugar and dairy products the search for stability and security has involved domestic action in the shape of price guarantees and/or price fixing. Indeed most of the schemes that have been proposed for other commodities have included one of these elements. On the other hand, in the case of meat, the Fifteen Year Meat Agreement with the United Kingdom has sought to provide a floor to prices without recourse to action at home.

It is, of course, logical that an attempt be made by governments to obtain the greatest degree of stability possible in overseas prices when a policy of providing a guaranteed price to farmers is being followed. The risk is thereby minimized. Such a policy becomes all the more

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[3] *A Rural Policy for Post-War Australia.* Authorized by the Rt. Hon. J. B. Chifley, 1946, p. 2.

important when, as in the case of wheat, the export market takes the greatest share of production. From the point of view of a domestic price guarantee scheme, the lower the proportion of the product exported, the less the importance of stable overseas prices—although it may be that from the balance of payments viewpoint, trade policy reasons will dictate an attempt here, too, to prevent prices falling to uneconomic levels. At the other end of the scale, it might be argued that for those industries which do not meet domestic consumption requirements the nation's trade policy interests as reflected in the balance of payments might be best served by lack of stability in overseas prices although from the angle of the local producer the continuation over a period of low priced imports could spell danger to his price guarantee whether it take the form of bounty or mixing regulation. Similarly it may be in the national interest in cases such as this for prices of imported goods to be stable if only because the supplying country is a market for some of our exports.

The purpose of this paper is not to argue the case for or against existing price guarantee schemes in Australia. It is obvious, however, that policies which offer guarantees far out of line with prevailing world prices must inevitably lead to distortions in the form of dumping abroad or high tariffs or quantitative restrictions at home.

The attempt to link domestic stabilization schemes with some stability in prices received for the part of production that is exported, is to some extent calculated to give predictability to producers' incomes. There is, however, another side to this and that is the possibility of providing some predictability to export income looked at from the viewpoint of the country as a whole and not only of the farmer. For developing countries, and particularly those which have encountered balance of payments problems, there are obvious advantages in avoiding excessive short-term fluctuations in the prices of export commodities, although it might be cynically suggested that the preference of exporters is more for the prevention of sharp falls in price rather than of steep increases. Even so, the history of the International Wheat Agreement shows that in a period of high prices, exporting countries were prepared to accept maximum prices lower than the then prevailing prices in exchange for what at that time seemed to be a guarantee for the future of reasonable minimum prices on a large proportion of their normal exports. (It is in the record, of course, that importing countries in a changed supply setting felt differently in subsequent agreements, particularly on the question of quantities.)

We can thus recognize two main reasons for governments attempting to obtain some degree of price stability for export commodities—to act as a buttress to guaranteed price schemes to producers and to afford some predictability in national export income.

It would be wrong, however, to leave the matter there. Governments have not been alone in their search in the post-war period for stability (or should we call it a floor) in the returns from export commodities. There is little doubt that the majority of wheat and sugar producers in Australia support the international agreements which have been arrived at for their products. Nor is this an Australian phenomenon as is demonstrated by the strong support of Canadian and United States grower organizations for, say, the Wheat Agreement in periods of both high and low prices.

On the other hand, the decisive defeat by Australian woolgrowers of the Post-J.O. Marketing Scheme showed conclusively that all producers are not necessarily wedded to the doctrine of price stability, particularly if some Government intervention is necessary. The factors causing this are a fascinating story in themselves but suffice it to say at this point that an examination of Australian attempts to secure commodity arrangements and other means of procuring some form of price stability for exports is coloured by the absence, since 1951 at any rate, of such direct efforts for wool.

Australian commodity policy on the side of price has in the last decade not embraced a product responsible for about half of our export income from primary products. Because of this and the exclusion of many other commodities from direct action for international price stability, care must be taken not to exaggerate the importance of this aspect of commodity policy.

We might conclude, therefore, that while we recognize the value of reducing wide fluctuations in prices of agricultural commodities entering international trade, there has been no general move either to sponsor commodity arrangements or to join them willy-nilly. There has been, however, a willingness to examine proposals on a commodity by commodity basis resulting in our membership of formal agreements on wheat and sugar.

We can go somewhat further. At the Montreal conference in September, 1958, Australia indicated that she placed so much stress on the reduction of price fluctuations not only for her own export commodities but also those of other members of the Commonwealth, and particularly the under-developed countries, that where considered desirable and practicable, she would as a consuming country, participate in action for greater stability. Indeed, one of the main features of the report of the Montreal Conference was a general understanding for the Commonwealth countries to :

> " agree to participate in an examination of the situation, on a commodity by commodity basis, with a view to arriving, whenever necessary, at understandings about how best, consistently with a recognition of long-term trends in supply and demand, short-term fluctuations could be moderated."[4]

It was hoped that in order to obtain effective action, important producing and consuming countries outside the Commonwealth would be prepared to join in this work. I suggest that the Montreal undertaking was not the least important factor leading to the return of the United Kingdom to the International Wheat Agreement.

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[4] Australia : *Report of the Commonwealth Trade and Economic Conference, Montreal, September* 1958, p. 6. (Canberra Government Printer).

III

If it is admitted that the search for some form of price stability by Australia has been selective in accordance with a stated policy of " a commodity by commodity approach ", the attempt to maintain export quantities has covered the whole range of export commodities.

In many essentials, Australian policy over the past decade has had to be a defensive one in the sense that much effort has had to be put into preventing the loss of markets or opportunities for greater sales abroad. On the one hand this has taken the form of opposition to any steps to increase tariff barriers against Australian commodities, e.g. the sporadic attempts to raise the U.S. wool tariff or impose quotas or higher duties on lead and zinc ; the arguments in the G.A.T.T. and elsewhere against agricultural protectionism, particularly in Europe, are another reflection of the fear that markets may be lost not only in those countries expanding high cost agricultural output but in other markets where the subsidized exports from the higher cost countries might find a home.

However, the defensive concept is perhaps best illustrated by our attitude to disposals of surplus commodities by the United States. Basically the approach has been to recognize the problem facing the Americans but in co-operation with other countries and to a considerable extent, with the United States too, to contain the disposals so that they do as little harm to normal commercial trade as possible. Three main methods have been adopted to further this objective.

First was the drawing up in 1955 by the Food and Agriculture Organization of a set of Principles of Surplus Disposal to which most member countries of the F.A.O., including the U.S., have subscribed. Without going into details, some of the more important principles might be mentioned :

> " 1. The solution to problems of agricultural surplus disposal should be sought, wherever possible through efforts to increase consumption rather than through measures to restrict supplies.
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> 2. Member Governments which have excess stocks of agricultural products should dispose of such products in an orderly manner so as to avoid any undue pressure resulting in sharp falls of prices on world markets, particularly when prices of agricultural products are generally low.
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> 3. Where surpluses are disposed of under special terms, there should be an undertaking from both importing and exporting countries that such arrangements will be made without harmful interference with normal patterns of production and trade."

These are the general principles which surplus disposing countries have undertaken to observe. In addition other principles set out some of the factors which should be taken into account such as :

> " The extent to which commodities supplied on concessional terms are likely to be absorbed by additional consumption (i.e. consumption which would not have taken place in the absence of the transaction on special terms).
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> The effect of the surplus disposal transaction on other exporters' sales to particular regions."

The task of watching the observance of these principles was given to a special group set up in Washington—the Consultative Sub-Committee on Surplus Disposal. In this Committee, countries can raise complaints against what they consider to be breaches of the F.A.O. principles and it is then incumbent on the disposing country to defend itself before an assembly of other countries. On a number of occasions the complaints registered there have led to a change in a particular surplus deal or in U.S. methods of conducting such transactions generally.

A second way in which the interests of other exporters have been taken into account has been in the development of consultation between the U.S. and other exporters having an interest in the market to which it is proposed surpluses be sent. Thus, if the United States proposes to enter into a P.L.480 Agreement to supply wheat to Country X and Australia is a major commercial supplier to that country, it is now the normal practice usually well in advance for the U.S. to discuss the proposal with Australia. In these discussions full details of the deal are set out and if we feel that our interests will be unduly prejudiced we can use this opportunity to argue our case. With the passage of time, consultations on disposal transactions have become increasingly effective.

Out of the work of the Surplus Sub-Committee and the country consultations there has been devised one particular method of trying to protect the interest of other exporters such as Australia. This is the insertion in agreements between the United States and recipient countries of what is known as a " usual marketing requirement ". Under this, in return for the Public Law 480 wheat the receiving country undertakes to purchase commercially a stipulated quantity from usual suppliers. Thus when the P.L.480 deal with India was negotiated in 1956, India undertook to buy commercially 550,000 tons, while similar provisions have been inserted in many other agreements. In the case of many agreements, the usual marketing requirement has borne a reasonable relationship to a country's previous commercial purchases. However, in the last year or so there has been a tendency on the part of some importers to argue that their balance of payments position is such that they cannot afford to purchase the amounts laid down for commercial imports and in several important cases there has been a marked reduction in the usual marketing quantity. This has then led to a fall in the amount of wheat Australia can sell commercially to that country.

It is obvious that the usual marketing requirement imposes an upper limit to commercial sales in countries receiving surpluses. Nor is it a constant figure as witness India's fluctuating commercial imports—550,000 under the 1956 P.L.480 Agreement, 200,000 tons (of which 60,000 were pre-empted to Australia) in 1958 and 400,000 tons under the most recent agreement.

The discussion above of surplus disposals has concentrated on wheat because with a few exceptions, notably dairy products, the dangers of P.L. 480 to Australia have mainly applied to that commodity.

Any judgment of Australian policy must be made by examination of the alternatives. I venture to suggest that there have been two main alternatives—to do nothing or to attempt to compete with P.L. 480 wheat. The first of these possibilities could conceivably have resulted in Australia losing the Indian market completely and losing a larger share than it has of the grain market in Pakistan and the flour markets of Ceylon and Indonesia. As for competing with P.L.480 wheat, at what price would Australian wheat on commercial terms be attractive against wheat for which payment can be made in local currencies and a sizeable proportion of the proceeds is then loaned back to the purchasing government ? Taking the economic position of these countries into account, it seems unreal to think that breaking the wheat price by Australia would have led to markets of the size that have been retained when the recipient countries have had the alternative of surplus disposals to meet their import requirements. I have also assumed that it would be unreal (and unnecessary in the light of events) for Australia to attempt to compete in the giveaway business.

It was said at the beginning of this section that Australian policy has had to be a defensive one in the attempt to maintain existing markets in the face of recent trends. This is not to say that it has been a passive defence. Rather it should be remembered that much effort and argument has been put into obtaining the understanding on surplus disposals even on such matters as procedures for consultation before P.L.480 deals are consummated or on the development of the normal marketing requirement in such transactions.

It is true that these efforts have not solved the problem of agricultural surpluses nor is the solution much nearer because of them in the sense of removing the existence of huge stocks of wheat and other commodities. Some sort of modus vivendi has, however, been found, one in which considerable recognition has been given by the United States to the problems of other exporting countries. It would not be unreasonable to point to 1959 as the end of the first phase of the surplus problem as with the establishment of procedures for safeguarding fairly adequately commercial trade, the United States and other wheat exporters were able last year to confer on co-operative approaches for the better use of surplus wheat. We shall return a little later, to Food for Peace and the Wheat Utilization Committee.

In the meantime let us recognize that the main hope for the end of the period of abnormal surpluses lies with the Americans themselves in their domestic agricultural policy. This was succinctly hinted at by the Chairman of the Inter-Agency Committee on Agricultural Surplus Disposal, Mr. Clarence Francis, in the preface to his half yearly report in June, 1959 :

> "There are few signs that our total efforts will consume increasing supplies. What started as a temporary activity is tending to become permanent."[5]

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[5] U.S. Congress : *Tenth Semi-Annual Report on Activities Carried on Under Public Law* 480. June 1959. U.S. Government Printing Office, Washington, 1960.

Let us also recognize that neither American policy makers nor our agricultural economist colleagues in that country have agreed on whether the solution should be lower support prices, higher support prices and rigid controls of production or what have you. In the absence of any politically feasible solution, we must therefore look to the maintenance of the present containment of surplus disposals to ensure that Australian commercial markets are not entirely jeopardised.

IV

We have thus in sketchy fashion examined Australian commodity policy in relation to two of the conditions set out earlier in this paper—surpluses and (by mention mainly) agricultural protectionism. The tenor of the discussion has been that the policies adopted have been appropriate to overseas developments and have maintained exports at as high a level as possible—an important consideration in the light of our balance of payment position. More heroic approaches (or possibly, ones that faced the facts less) might conceivably have led to a much worse situation.

The challenge of the coming years will, however, be to do more than hold the line. It has yet to be disproved that a growing Australian economy will need larger export receipts and that the bulk of these must come from the rural sector. And yet, at a quick glance, the prospects are not bright in many of our traditional markets. British agricultural policy sets a fairly broad upper limit, to the quantities of some of our commodities that she will take and in any case, the levelling out of population will of itself prevent much increase. Trends in Europe, and particularly in the E.E.C. countries, are hardly conducive to optimism that there will be a marked upward movement in export opportunities in that area. Leaving aside our hopes for a continuing and expanding market for wool, and the unknowns of the Communist Block, the main possibilities come back to the under-developed countries, that is the countries which now are the major recipients of surplus disposals.

The problem facing these countries was graphically illustrated in the June 1959 issue of the Economic Bulletin for Asia and the Far East :

> " Even if the present rate of population growth in the E.C.A.F.E. region, which is 1.7 per cent a year, is not further increased, the capital required to increase per capita income by 3 per cent a year, given a capital-output ratio of 3, would equal 14 per cent of national income—considerably higher than the actual rate of capital formation in most of the countries. At this rate of increase of per capita income, it would take about 24 years to double the present per capita income. Starting from the present average level of E.C.A.F.E. countries other than Japan (about $65), it would take 54 years to reach the present world average excluding E.C.A.F.E. countries and 115 years to reach the present high level of the United States. To double the per capita income in 10 years, implying an annual increase of per capita income of 7 per cent, the rate of capital formation required at the same capital-output ratio would be 26 per cent of national income. Still higher rates of capital formation are necessary if the rate of population growth is further increased."[6]

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[6] United Nations : *Economic Bulletin for Asia and the Far East*, Vol. X, No. 1, June 1959, p. 44.

It is a fairly inescapable conclusion that foreign capital will be needed if higher incomes and hence higher consumption are to be developed in those countries. This, of course, was realized in the concept of the Colombo Plan, and appears to be receiving a growing recognition today in international discussions.

Such considerations, are of course, wider than the field of commodity policy. They do, however, illustrate the close relationship which must exist between foreign economic policy and trade and commodity policy.

Leaving aside this broad and perhaps basic problem, several other matters related to the raising of consumption levels in under-developed countries should not be ignored. For example, it is often argued, particularly in the United States, that raising the level of appropriations for P.L.480 would permit more surpluses to be shifted to the benefit of the supplying and receiving countries. This ignores at least two problems.

First, in some important recipient countries, port and handling facilities are barely adequate to accommodate the quantities now being received while transport problems also come into the picture. From this it might be argued that further evidence is provided for capital assistance.

Another problem which has arisen in the use of surpluses to increase consumption has been the fact that the domestic producer cannot be ignored. It is apparent that if large quantities of surplus commodities are received either in exchange for local currency or as a gift, the recipient country cannot overlook the effect on its own wheatgrower or miller producer or dairy farmer. If the imported commodity is given away or sold too cheaply, domestic production is reduced and the demand for imports increased—thus social and political balance of payments problems can be caused. On the other hand, if prices are set too high, there are inflationary effects as well as dampening effects on consumption. What has usually happened has been that prices have had to be set for the imported (or surplus) commodity at a price which has regard to these questions but which to some extent negates the consumption increasing aspects of surplus disposals.

There are thus problems in expanding consumption even if the commodity is to all intents and purposes given away by the supplying country. Thus alongside the examination of possibilities of expanding the world's commercial trade in wheat, including the development of new markets, the Wheat Utilization Committee set up by the Food for Peace Conference in May 1959 was also charged with examining :

> " Ways of increasing and making more effective the utilization of wheat surpluses for the promotion of economic development and the improvement of nutritional standards."

The report of the expert committee which the Wheat Utilization Committee has recently sent to Japan, India and Indonesia will thus be important and interesting in its observations on the question of raising consumption in surplus receiving countries generally.

Stated broadly, then, a basic commodity problem is the raising of consumption levels generally. For Australia specifically, the turning of increased consumption levels into markets is an element of commodity policy but coupled with broader issues of foreign, financial and trade policies. As an instance of where commodity and trade policy merge we might think about what would happen if industrialization becomes a fact at some time in the future in one or more of the under-developed countries and they look for markets for their manufactures in return for opportunities for our agricultural products. Perhaps the Japanese Trade Agreement is a case in point.

V

From what has already been said, I believe that the first requirement of an adequate commodity policy may be postulated—that it be flexible to cope with changing conditions. I shall briefly state what I consider are two other desiderata :

(a) that domestic agricultural policies are not too far out of line with international objectives, or

(b) that adequate attention is paid to anticipating future developments in commodity trade.

The first of these looks rather obvious but is really worth a full scale discussion in itself. Suffice it to mention here several aspects of the matter. First, there are limits to the amount of protests a country can make about her competitors subsidizing exports if she herself indulges in the same practice. This becomes a question of " physician heal thyself ". Even here, however, there are degrees of blame, a basic test of a subsidies incidence in international trade being the extent to which it fosters uneconomic production and enables a country to obtain a disproportionate share of world markets at the expense of its competitors.

I have thus deliberately stated the proposition that domestic policies should not be " too far out of line ". Basically, a nation's first duty is to its own interests and there may be overriding reasons for supporting or subsidizing local industries. What is necessary, however, is that due weight be given to the arguments for and against a domestic policy vis-à-vis a country's overseas interests.

Similarly it devolves on governments to ensure that their domestic agricultural policies do not act as incentives to production unrelated to prospective markets at home and abroad. This is a trite suggestion but one has only to look at American experience in the last 10 years to see what can happen when this factor is not fully considered.

The need for paying attention continually to market prospects follows from what has just been said. Commodity policy and trade policy generally cannot operate without regard to future trends in production and consumption both at home and abroad and without an assessment of the political and economic factors which may affect markets for export products.

I believe that it is in these fields that the agricultural economist has a part to play. One function of the Bureau of Agricultural Economics expressed as far back as the days of the Rural Reconstruction Commission is to prepare regular reports on the economic prospects for rural industries as a guide both to producers and governments. This, in my view, is an important task for the Bureau and one that we shall continue to undertake impartially, and I hope, enthusiastically.

I should hope, however, that there will be a growing awareness on the part of others in our profession that agricultural economics does not stop at the farm gate. The marketing and other problems affecting the returns of primary producers are well worth some of the time of those outside the government service.

Accordingly, while this paper has raised many issues and treated them with hardly more than passing recognition, I would feel it of use if it encouraged others to think about the answers to these questions.