INTERNATIONAL
JOURNAL OF
AGRARIAN AFFAIRS
Vol. I, No. 3, September 1949

International Wheat Agreements

Price 5s. 0d. net
OXFORD UNIVERSITY PRESS
LONDON: GEOFFREY CUMBERLEGE

By GIUSEPPE ORLANDO

Istituto Nazionale di Economia Agraria, Rome, Italy

ITALY'S CONCERN WITH WHEAT POLICY

ITALY is to-day the third greatest importer of wheat (after England and Bi-zone, which import respectively about 50 and 30 million quintals) so that she is greatly interested in the conclusion of an international wheat agreement. Her position as a wheat importer has altered during the last thirty years with changing political objectives, as a glance at the course of her past grain policy shows (Table 1).

TABLE 1

Foreign Breadgrain (Wheat and Rye) Trade (millions of quintals)

	Total				Imported: Europe (excluding Italy)*			Imported: Italy*			
Exporting Countries	*1925 1929*	*1934 1938*	*1946 1947*	*1947 1948*	*1934 1938*	*1946 1947*	*1947 1948*	*1925 1929*	*1934 1938*	*1946 1947*	*1947 1948*
Argentina	43	36	17	31	17	9	12	4	1	2	8
Australia	20	28	13	28	2	1	11	2	1	..	1
Canada	73	49	62	57	37	49	48	6	..	2	..
United States	33	10	108	129	4	59	82	9	1	10	13
Russia	9	7	6	6	2	5	5	..	3	..	..
Other Exporting Countries	12	26	1	10	..	..	..	..	..	..	..
Total	190	156	207	261	62	123	158	22	6	14	22

* Wheat and flour exports only.

Until the period 1929–32 or a little earlier the grain duty was not such as to prevent overseas competition, and in the decade 1919–29 annual importation amounted to the considerable figure of 20–5 million quintals. Only in 1926–7, at the outset of the so-called *battaglia del grano* and again in 1929–32 as a result of the crisis, did Italian policy veer towards protecting grain production. The duty was raised from lire 28 to lire 41 in 1930, to 52 in 1931, to 60 in 1932, to 73 in 1933, and to lire 75 in 1934, when it sufficed to check overseas competition. It was not for long, however, and in 1935,[1] on initiation of the autarkic policy, grain imports were subjected to a *ministerial licence* and the state, which hitherto had exerted only an indirect influence, began to fix quantities directly, in order to ensure an exceptional, even if unprofitable, productive effort.

From 1934 on, there began, on the one hand, an uninterrupted rise in the national wheat price (see Table 2) in contrast to the inter-

[1] D.M., 25 June 1935.

national price trend, and on the other, a constant increase in production, which in 1938 reached 81,838,000 quintals, and a corresponding decrease in the volume of imports, which in 1938–9 dropped to barely 2 million quintals.

TABLE 2

Prices of Italian and American Wheat from 1920 to 1948

Years	Price of wheat in Italy		Price of wheat in U.S.A.*	
	in lire per quintal	*in 1938–9 dollars per quintal*	*in dollars per quintal*	*in 1938–9 dollars per quintal*
1920–1	110	4·84	8·25	5·13
1925–6	194	7·89	6·07	4·57
1928–9	136	6·89	5·11	4·10
1931–2	119	8·42	1·92	2·17
1937–8	129	6·94	4·44	4·16
1938–9	142	7·47	2·59	2·59
1939–40	143	6·73	2·81	2·77
1940–1	162	6·84	3·18	3·04
1941–2	183	6·84	4·14	3·38
1942–3	229	6·36	5·03	3·83
1943–4	279	2·73	6·18	4·61
1944–5	771	3·42	5·85	4·30
1945–6	845	1·73	6·81	4·87
1946–7	2,703	4·63	8·80	4·88
1947 2nd half-yr.	4,526	4·08	10·36	5·08
1948 1st half-yr.	4,526	4·84	9·68	5·08
1948 2nd half-yr.	6,500	6·52	8·14	4·81

* Soft No. 2 Chicago.

This forcibly extended grain cultivation, invading hill and mountain areas, where only a low-unit yield was possible, visibly affected other products, arresting their development and even causing some drop in the level of output previously attained (e.g. in the livestock sector).

The war reduced the wheat area from 5·3 million to about 4·25 million hectares, and production dropped to a level lower than that which preceded the autarkic period; care was taken, therefore, when laying the foundation of the new wheat policy, to avoid a repetition of past errors and, whilst taking into account initial grave difficulties in the food and foreign exchange situations, an endeavour was made to direct Italian agriculture towards the productive pattern which would be most profitable for the national income.

Italy following the lines laid down by the present circumstances (political, foreign currency, and food situation) should seek to increase her total production (both in area and yield) from the present 62–5 millions of quintals to about 75 millions by 1951–2.

Allowing for a progressive increase in domestic needs over the next four years, as a result of the persistent excess of births over deaths and a higher average *per capita* consumption, the aggregate grain requirements would pass from a minimum of 90 million quintals in the first year to a maximum of 91·2 millions in the fourth year. In consequence it would be necessary to import in the following years:[1]

1948–9	25	million quintals
1949–50	22·4	,, ,,
1950–1	18·2	,, ,,
1951–2	16·2	,, ,,

This is the first of the objectives which Italy plans to achieve in her short-time programme, considered indispensable to bring the country back to a condition of normality and to prevent her balance of payments having any longer a negative influence, as at present, on the stabilization of prices.

But this short-term programme is necessarily influenced by what may be called the structural, or long-term, programme. If Italy's nearest goal is a maximum grain production she must, at a later date when her end has been achieved, seek to obtain the same result by augmenting the yield per hectare. This would mean—if accompanied by technical progress—a diminution of production costs and thus an enhanced resistance against international price fluctuations. At the same time she could release lands which would give better returns if devoted wholly, or in rotation, to other seasonal forms of production (e.g. livestock and forage). And here it may be opportune to remark that on this intention depends the outcome of Italy's industrial development in the vast depressed areas of the south.

There is another fundamental reason which calls not only for the early achievement of a maximum level of grain production, but also for the change-over of vast zones from an extensive-cereal to a cereal–livestock production, with improved average yields. This reason is heavy unemployment[2] which necessitates a programme for the maximum use and distribution of labour resources throughout the year, and which, in the extensive cereal zones of the south and Po Delta, tends to create the permanent unemployment shown in official statistics, and in addition a menacing seasonal unemployment. The

[1] Pasquale Jaraceus, *Elementi per un piano economico 1949–52*, Report for the Interministerial Committee for Reconstruction, I.R.I. and C.N.R., Aug. 1948, p. 168.

[2] In the month of maximum unemployment (January) of 1947 the Ministry of Labour recorded 484,124 farmworkers registered at the Unemployment Exchanges; in the month of minimum unemployment (June) 276,741.

rate of employment becomes higher if permanent livestock enterprises, which call for specialized labour throughout the farm cycle, develop in the wheat areas.

THE WORLD WHEAT SITUATION IN THE NEXT FEW YEARS

With this programme in mind, let us now see how it fits into the international picture.

The world production of wheat during the last four years compared with that of a normal pre-war period was as follows:

TABLE 3

World Production of Breadgrains (millions of quintals)

Countries	*1934–8*	*1945–6*	*1946–7*	*1947–8*
North America	270	432	466	458
of which:				
Canada	72	114	93	106
United States	195	314	372	349
Europe	423	354	275	387
of which:				
Italy	72	61	46	62
U.S.S.R.	381	210	236	?
Asia	399	427	409	448
Africa	37	39	35	41
South America	81	72	88	66
Oceania	42	33	63	47
Totals	1,633	1,567	1,571	1,687

Consumption has reached the following levels:

TABLE 4

Breadgrain Consumption in the Principal Exporting and Importing Countries (millions of quintals)

Countries	*1934–8*	*1946–7*	*1947–8*	*Variations in population growth between 1936 and 1947*
Australia	15	21	23	+0·7
Canada	29	48	38	+1·5
United States	185	211	212	+15·6
Europe (excluding U.S.S.R. & Italy)	413	416	387	+5·9
Italy	78	75	68	+3·4

Since exportation has followed an increasing trend (Table 1) considerable reserves have been accumulated:

TABLE 5

Breadgrain Stocks in the three major Exporting Countries (millions of quintals)

Countries	At 31 July 1929	At 31 Aug. 1938	At 1 Aug. and at 1 Dec. 1946*	At 31 July and at 30 Nov. 1947 (1 Aug. and 1 Dec.)*	At 31 July and at 30 Nov. 1948*	At 31 July 1949
Australia	8·0	10·0	5·4	3·7	4·0	?
Canada	35·0	7·0	19·9	22·8	20·5	?
United States	68·0	47·0	27·6	22·6	53·5	?
Totals	111·0	64·0	52·9	49·1	78·0	?

* The two dates indicate the beginning of the consumption year in the Northern and Southern Hemispheres respectively.

If such is the present wheat situation, and if as a result of the trend of production in the three major exporting countries (accelerated by inflation and rearmament) it can be legitimately predicted that reserves will continue to increase during the next few years, it is also to be expected that present food difficulties will pass and that gradually the supply will exceed the demand.

It must be borne in mind that if in exporting countries there is a prospect perhaps of a poor wheat-year, so is there hope of favourable years in the importing countries, which, during the recent period of maximum production in the U.S.A. (1944–5/6–7), have suffered poor harvests[1] due principally to adverse weather conditions; thus, consumption was lowered[2] and the accumulation of stocks rendered impossible.

Wheat exports from the U.S.A. have risen from 9 million quintals before the war to more than 100 million quintals to-day. Europe, meanwhile, after the poor production of recent years, has already reached 387 million quintals in 1947–8, as against 420 millions in the years preceding the war. In two or three years time, at the latest, the demand from the importing countries should be reduced practically to that of pre-war days, and the U.S.A. will be compelled to limit production to about the level maintained prior to the war. One would, of course, take into account, however, the population growth of the

[1] Europe: respectively 224, 330, and 248 million quintals against 423 millions in the period 1934–8.

[2] In 1945–6 and 1946–7, consumption as compared to pre-war stood at 74 per cent. and 87 per cent. respectively.

last ten years (Table 4) and the increased needs due to other essential products being scarce. Foreign demand for wheat in America, following estimated consumption needs for 1948–9, has already dropped by about 100 million quintals from the *record* figure of 126 millions exported in 1947–8.

The predicted excess of supply over demand is a hypothesis founded upon reality, to which due weight must be given when judging the effects of the International Wheat Agreement.

Faced with these prospects and acutely aware of the disastrous consequences of the great crisis of 1929, the countries mainly responsible for world economic conditions have sought a preventive remedy, of which the Wheat Agreement represents one of the first tangible aspects.

The Wheat Agreement has a significance in that it is one aspect of that economic orientation which is finally entering into the international conscience. It reminds us that as distinct from the balance-sheet of the single enterprise, there exists a balance-sheet of collective enterprise which, at present, is mainly confined within national boundaries, but which already tends to pass beyond and to become a world balance-sheet, or, in other words, a programme whose aim is to obtain a maximum world income by means of a full utilization of the productive factors.

In the days when economic freedom opened the road to progress and well-being, Wilhelm de Humboldt wrote with penetrating insight: 'Liberty does not produce the salutary effects that accompany it, when it is artificial; and it is always artificial when Man does not claim it.'

Man, after experiencing the well-being which economic liberty procured for him, came, alas, to know the ills accompanying the existent form of economic liberty, and asked wildly for controls and tariffs. These added but fresh ills to those already suffered. Only to-day perhaps, when thoughtful reflection on past events has moved him to provide for himself a new and rational economic organization, is it possible to say that liberty will return 'to produce those salutary effects that accompany it', because the new orientation diffused in the international conscience will no longer be artificial.

EFFECTS AND SIGNIFICANCE OF THE AGREEMENT

In the light of what has been said one can more easily understand the value and range of the policy which the leading states have adopted in regard to one of the most important sectors of production. It should suffice to refer to that followed by the U.S.A.

Convinced that an increase in the national income depends upon the degree of employment and investment of capital achieved, the U.S.A. have endeavoured to protect themselves against sudden reversions in trend which follow a boom in productive activity; they have therefore established minimum prices (parity prices)[1] for the principal products, amongst them wheat, the state assuming responsibility for paying the difference between the guaranteed minimum price and the market price if it were lower.

In this way the state guarantees to the growers, for the quantity destined for home consumption, the parity price of the wheat, which being linked to the level of the prices paid by farmers for farm requisites, is sufficiently remunerative. In a similar way, for the quantity destined for export, the state—under the terms of the Wheat Agreement—guarantees a minimum price to correspond with the home-market price, and thus protects the market from fluctuations caused by foreign demand.

This dual system reflects fully the concept affirmed by Keynes, that 'the right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump, but lies in abolishing slumps and thus keeping us permanently in a quasi-boom'.[2]

If the Wheat Agreement did not exist, and the world price of wheat could therefore drop without limit on the foreign market, either because of competitive pressure or because of an excessive accumulation of stocks and a reduced foreign demand, exporting countries obviously would suffer a series of grave repercussions which would not be confined to the grain sector alone.

In the first place the state would encounter a definite loss—especially when it is considered that the present inflation shows as yet no sign of diminishing—by paying the difference between the price of wheat on the home market and the lower price it would realize on the exporting market. Nor could it count on foreseeing an increased demand from importing countries as a result of declining prices, since these countries in fact, either for reasons connected with their foreign exchange situation or in order to avoid discouraging home

[1] Which are determined by a price mechanism based on the variation in supply and the prices of goods purchased by the farmers.

[2] J. M. Keynes, *The General Theory of Employment, Interest, and Money*, p. 322.

production, could not augment their import requirements, and must therefore protect directly or indirectly the home price of wheat. If the demand does not increase, the price is destined to fall still farther.

In the second place, the slump in the wheat price could be accentuated by the competition in which inevitably the exporting countries would indulge, fearing their inability to export the grain produced and accumulated. That potential possibilities of competition exist is evidenced by the fact that whilst the price of Canadian grain on the national market stands at $5.85 per quintal, the price on the world market—linked to the U.S.A. quotations—stands at about $8.00; this, apart from the fact that the preferential bilateral agreements so widely adopted in the decade preceding the war, and to which there would be again recourse, would preclude entirely any defence.

In the long run the state, unable to withstand the contraction of income which would ensue from a similar set of circumstances, would be compelled to diminish its support of the export price, with inevitable depressing effects on the internal situation, and especially on the general price level, to which, it must be remembered, the fixing of the parity price of wheat is linked. Furthermore, rising Treasury expenditure, with all that this implies, would excite opposing trends on the market and thus create the typical conditions for a crisis, that is, violent transition from an upward to a new downward movement.

Undoubtedly, the negative consequences described above would be very much greater to-day than formerly, when state intervention in private activity and also in foreign trade was practically non-existent.

It must be said that the deprecated controls, currency restrictions, licences, and contingents, which accompanied the grave errors committed in making closed economies, and in calling forth a campaign of retaliatory action between states—thus restricting international trade—had undoubtedly the merit of partially preventing, by their endeavour to reach a volume of production which would assure full employment, the sudden collapse of the economic structures of the various nations.

Wherein precisely does to-day's policy differ from that of the decade preceding the Second World War, and from that which from 1919 brought us to the crisis of 1929? Essentially in this, that the new orientation in economic policy which is towards attainment of the world balance-sheet already referred to, and the production of a maximum world income by means of full utilization of the productive factors, has the dual role of developing the volume of international trade on the lines laid down by its economic laws, and of anticipating eventual disequilibria in the structure of production, neutralizing possible breakdowns or manipulated inflations.

If our view of world events is correct, and through lack of an agreement the negative consequences manifest themselves, who can fail to see the advantages for the exporting countries of the system of minimum world prices and guaranteed sales, as contemplated in the Washington Agreement?

But is such agreement as definitely profitable for the importing countries? Even if in the ultimate analysis we conclude that it is, the question changes aspect slightly, and leads us to propose certain amendments. Even without these, however, and in the form contemplated, the International Wheat Agreement has a fundamental use and represents a safety valve for the entire economic system.

The quantity guaranteed as exportable and importable, together with the minimum price fixed, arrests an expanding propensity to consume and at the same time holds in check a decreasing inducement to invest, thus creating the conditions for the re-establishment of equilibrium.

After these general reflections, let us view the effects of this Agreement on debtor countries, and in particular on Italy, since these, whilst not diminishing the general benefits which may accrue, can nevertheless suggest certain modifications and specific guarantees.

The Agreement is undoubtedly of great advantage to importing countries for such time as the world price of grain is higher than the maximum fixed of \$7.35, as, for example, to-day, when it moves around \$8 at the ports of embarkation.

One can predict that the situation will continue to be favourable throughout the first half of the period of duration of the Agreement, that is, whilst Europe, engaged in economic reconstruction, is unable to reduce her demand for foreign wheat. And indeed the favourable period may be still further prolonged if inflation in America persists as a result of her rearmament policy. But, in this case, one can be sure that the American Senate will render inoperative the advantages by again withholding ratification of the Agreement.

If, instead, after that first period or after cessation of abnormal conditions, the world price of wheat drops below the minimum established for each year, the advantages for the importing countries are somewhat doubtful.

At a first glance there can be no doubt that, taking into account the prospects formulated, the minimum level fixed by the International Agreement of Washington represents for the importing countries a net loss[1] the more serious if one considers that the U.S.S.R. and the Argentine are not parties to the agreement, nor, it can be predicted, will they be in the future.

If the world wheat price should drop freely, it is obvious that this would spell decreased expenditure for the debtor country, which could utilize the margin saved in the purchasing of requisites abroad, and could insist on long-term payment, profiting thus from the difference between the price at the time of purchase and the lower price likely to prevail on maturity of the payment. Nor would there be any internal repercussion. That at least is true of Italy or of any other European country where there is a monopoly of the foreign wheat trade.

The state, in order to prevent home production from being discouraged by the drop in the world price, could sell the grain purchased on foreign markets at the figure quoted for home wheat, thereby making a profit of the difference between that and the lower expenditure—provided the exchange remained firm—of the foreign currency required to finance the purchase.

This is said for Italy, where grain purchases are effected by the state.[2] Where there is a system of private importation the state could, for a certain time, assure its productive aims by a protective tariff, but in the long run, and particularly when the price-drop is precipitate, the barrier erected by a slow legislative procedure would quickly become an entirely inadequate instrument.[3]

If we look into the question more closely, we have to admit that even the system of state monopoly cannot protect, for very long or completely, the production and economy of the importing country from the repercussions of international fluctuations. A lower wheat price will necessarily mean a decrease in the general price level in the exporting countries. This decrease, until such time as it has influenced

[1] As, now or in the future, would be the maximum price for the exporters.

[2] More precisely by the 'Federazione Italiana dei Consorzi Agrari' on account of the state.

[3] Eloquent proof is afforded by the events of the great crisis 1929–32, during which—as seen on page 23—the grain tariff, notwithstanding continual increase, failed to prevent the depression from influencing national production.

exchange levels, will bring about a growing demand for raw materials and other goods on the part of the importing countries[1] and, finally, a reduction in the costs and prices of the corresponding national products.

The reduced prices in the importing country will then tend to lower also the cost of the national wheat and its price on the home market. And it should not be forgotten that the fall will become accelerated by the indirect psychological influence exercised by the decline in international prices on the producers.

This is sufficient to compel the state to relinquish a part of the profit which it realizes on the difference between the domestic price and the import price. And it is necessary it should do so, otherwise the higher wheat price on the home market as related to the prices of other products would cause over-investment, which would eventually result in a sharp decline.

The state therefore cannot long maintain a price far removed from the international price or from the ratio existing between that and the domestic price before the fall. It will proceed in fact like any private importer, but with a fundamental difference, and it is this difference which leads us to consider that a state monopoly of foreign trade is indispensable, though not in all cases sufficient. We say 'not in all cases sufficient' because in certain circumstances the interest of some importing countries (notably, large producers), where costs and prices are unfavourably related, can be divergent from that of countries which commonly import all their wheat. In other words, the latter countries (for example, Great Britain) will in all circumstances be interested in the lowest-possible minimum price, being thereby guaranteed a saving of foreign currency in addition to a diminution of costs of other products. The former countries, on the other hand—amongst them Italy—will have the same interest, it is true, but they may find themselves compelled to seek a minimum price somewhat higher and to relinquish in part the other benefits.

The deflationary experience which followed the restrictions on credit in Italy in September 1947 showed that the margin between costs and prices is much less here than in any other country. As a result a big fall in the price of wheat would have consequences more immediate and more profound. The fact that in December last year the index of prices received by farmers (base 1938 = 1) was 56, whilst

[1] Italy imported in 1947 from the three major wheat exporters about 50 per cent. of her total importation; the leading supplier was the U.S.A.

that of prices paid and wages had reached the level of 68·9[1] suffices to show the precariousness of our situation, which is particularly evident in relation to possible declining trends of the international wheat price, when one considers that in the U.S.A.[2] on the same date the index of the prices of products sold had risen to 301, whilst that of the prices of technical equipment purchased did not exceed 262, and in Canada[3] these stood respectively at 208·3 and 164·2.

This scanty margin obliges the state to support the national wheat price at the present level at least until such time as a heavy price drop occurs on the international market, which, by its influence eventually on the prices of the products that Italy imports, makes for a perceptible decrease in the production costs of wheat.

On the other hand, a heavy drop would mean a decrease on the foreign market of those products of which Italy is an exporter, thus accentuating the already strong competition and causing a shrinkage in Italian exports. Unable to reduce production costs, and particularly wages, maintained at a high level by the need of a high wheat price, Italy would face a domestic crisis long before the fall brought about a general depression that would also have serious repercussions upon those importing countries that produce little wheat or none at all.

A drop in imported products would, it is true, cause also a decrease in the cost of production of the wheat, which might induce one to consider the problem non-existent. It is known, however, that the tension between prices and costs arises—as the recent experience in Italy teaches—during slumps, inasmuch as costs decrease with a much slower and less marked rhythm than prices. If we look again at Table 2, we find that the official Italian price of grain fixed for 1948–9 has exceeded by almost $2 a quintal the already high price quoted on the Chicago market (both expressed in the same purchasing power). The difference reflects the divergent production costs. But if American wheat falls, shall we be in a position to maintain the ratio for long? And if we have to lower the national price, in order to avoid the error of again being at variance with the international price movement of wheat and other products, can our production costs withstand

[1] *Annuario dell' Economia Agraria Italiana*, 1947, p. 123. Istituto Nazionale di Economia Agraria.

In 1938 the index number of prices received by farmers and that of prices paid and wages were, respectively (base 1928 = 100), 86·6 and 88·7—*Annuario Statistico dell' Agricoltura Italiana*, 1936–8, I.C.S., p. 417.

[2] Base 1909–14 = 100—*The Agricultural Situation, 1948.* U.S. Dept. of Agriculture.

[3] Base 1935–9 = 100—Dominion Bureau of Statistics, Canada.

the decline without repercussions upon our grain economy aimed to realize a high production? It is doubtful and it therefore becomes necessary to affirm that, should those circumstances occur, it must obviously be better for us that there is some defence at an international level, in the spirit of the Wheat Agreement, rather than have to seek it in our own narrow national sphere, as hitherto. It must not be forgotten that should we be unable to realize a high production, we would be compelled to import larger quantities than those estimated in the short-time programme,[1] which in consequence would make the burden of international payments heavier, or would at least annul that saving of currency which the lower minimum price would procure.

Provision for a possible compromise between the interests of the two types of importing countries would seem to lie in Article 6 of the accord signed last March, which states that the maximum and minimum prices are to be considered definitely fixed only for the first two years, whilst for the three successive years the Wheat Council, in sessions to be held in July of 1950, 1951, and 1952, can determine new maximum and minimum prices, which in any case cannot exceed, or fall below, the maximum and minimum already fixed. In other words, it is only possible to diminish the difference between the maximum and minimum, which means in practice a raising of the minimum fixed.

Amendment, however, is possible only when approved by two-thirds of the signatory countries; since England imports more than a third of the total quantity of wheat, and therefore disposes of a number of votes exceeding a third of the total number to which the importing countries are entitled, the amendment could not be approved, inasmuch as England, interested in a lowest possible minimum price, would exercise what would be substantially a veto. Hence the need for making a simple majority sufficient, recognizing that the interest of the importing countries that are big grain producers may be centred under certain circumstances on the minimum price, rather than on the lesser exchange burden. One must give thought to the fact, in any case, that the problem of the balance of payments is also grave and ever-present for these importing countries, so that in the yearly session of the Council, if the cost situation had become less difficult, it would be to their interest not to seek a modification of the minimum price fixed, in order to diminish the exchange burden.

[1] *v.* p. 25.

Before concluding this study, it is necessary to stress another aspect of the Agreement, which in our opinion calls for amendment.

We refer to the fact that the quotas are established annually in fixed proportions throughout the entire five-year period. The motive which moved the exporting countries (in particular the U.S.A.) to put forward a proposal of the kind is evident, even though tacitly ignored in the diplomatic discussions of the conference. The U.S.A. now export more than 100 million quintals of grain a year as against 9 million quintals in pre-war years. They seek therefore not to tie too high quotas to the obligatory maximum price in the first years, and to assure for themselves, moreover, placement of the surplus when European production (at present 350–80 million quintals a year) returns to the pre-war level of 420–50 million quintals. It is also clear that non-producing importing countries, like England, have no desire to oppose this, since their programmes are based on an increasing importation—at least in the first years—linked to the improved possibilities of their balance of payments and their intention of augmenting the *per capita* consumption. They can easily find compensation for any prejudice wrought by the fixed minimum price. But is the proposal equally advantageous for producing–importing countries, which, in consequence of their programme for expansion of home production, will be gradually bringing down their annual importation to a quantity which, their end achieved, will then remain fixed? Would it not be more logical that the guaranteed quota should be higher in the first two years of predictably high prices, in order that the highest possible quantity be subject to the maximum price, and should decrease in the following years of a predictable downward price trend, in order that the advantages connected with supply from non-participating countries should even up the disadvantages which accompany the minimum price for the quotas assigned?

What has been said in regard to Italy's possible need of a minimum price which is not too low, would seem to lead to the conclusion that if it is to her interest to receive as large a quantity as possible in the first years, it would not be to her interest to receive a gradually decreasing quantity, since the purchase of a larger quantity of wheat at the minimum price would permit her to support more easily the home price. However, as Italy's trade with the non-participating countries (Argentina and U.S.S.R.) represents but a modest proportion of her foreign trade in aggregate, and those countries have a more or less rigid control of foreign trade, for which reason an eventual depression there would have but a negligible effect on her economy, it may be considered that the system of state monopoly in force in Italy constitutes a sufficient guarantee for maintenance of the internal price at a level dictated by the needs of her agricultural policy. The higher quota purchasable at a lower price from those countries would represent a not indifferent return for the Treasury and a lesser burden for the balance of payments.

For this reason an annual contingent higher than that established by the Agreement for the first years, and, in the following years, a gradual diminution in proportion to her reduced importation needs, are plainly advantageous for Italy, and for other countries in an analogous position. A similar proposal would probably be acceptable to England as it would mean a lesser financial burden. The only opposition might come from the exporting countries, and in particular from the U.S.A., though it must perforce be clear that no advantage attaches to forcibly maintaining the structural disequilibrium, alluded to earlier, of a productive boom greater than the possible increase in consumption of the importing countries. Therefore, if they wish to show in a concrete manner that they follow their interest with that clear and long-sighted vision of the world production problem which they affirm they have, they should bring down gradually their production to a level greater than that of pre-war only in the measure required by the increased consumption. And the system of the diminishing quota could effectually fit into such a policy.

It is unnecessary to add that the proposal has no longer a *raison d'être* if the Argentine and the U.S.S.R. participate in the Agreement.

CONCLUSIONS

Lord Keynes, in his concluding notes on the general theory of unemployment, writes: 'The authoritarian state systems of to-day seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.'[1]

If politicians succeed in allaying anxious fears, removing the incubus of another tragic conflict, and if the modern world will show

[1] J. M. Keynes, *The General Theory of Employment, Interest, and Money*, p. 381.

in turn that it has understood the lasting value of this affirmation of Keynes, it will be possible to put into effect a system of international trade which instead of being as hitherto 'a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases', will be 'a willing and unimpeded exchange of goods and services in conditions of mutual advantage'.[1]

Viewed thus, the International Wheat Agreement—first of a series of agreements regarding essential products which should function as regulating pivots of the cyclical fluctuations—is not only advantageous for the contracting parties, exporters and importers alike, but represents above all a first tentative experiment towards the realization of that plan for an increase of world income and a full employment of the productive factors as set forth in Keynes's theory.

It is for this reason that in discussing the effects and significance of the accord, we have laid aside the temptation to criticize those aspects not entirely reciprocally advantageous which the political inequality of the contracting parties have introduced into it.

Several points, however, emerge from the discussion which we should do well to bear in mind when efforts are renewed towards an agreement and when choosing the line of agricultural policy to follow in the near future. These are:

1. The International Wheat Agreement cannot be effective unless in both exporting and importing countries the state assumes an *indirect* control of the national market.

In the exporting countries the American system of 'parity prices' would appear to be the best whereby to guarantee the international price from fluctuations on the home market.

In the importing countries, especially Italy, it would seem necessary to maintain the state monopoly on the foreign wheat trade, direct or indirect, as it allows for an adequate protection of the home market from the cyclical fluctuations of the world situation and, what is more, permits of an effective use of the quantities imported in controlling home market fluctuations and monetary contingencies.

2. In view of the disequilibrium existing between prices and costs in Italy, and in other importing countries that produce much wheat, whereby national production becomes particularly sensitive to downward movements in the international price, these countries may in certain circumstances find it more to their advantage to have higher minimum prices than those contemplated under the Agreement;

[1] J. M. Keynes, op. cit., p. 382.

this in contrast to non-producing countries, for whom the lowest-possible minimum price is always a lesser burden on their balance of payments.

The remedy would have been provided if Article 6 of the 1948 Agreement had been amended. The Article would have made it possible to increase the minimum price fixed for the last three years, if decided by a specified majority of members. A *simple* majority might have been permitted.

It is true that in this way England, unable to exercise the veto which was implicit in the specified majority, would find herself confronted by a minimum price increase duly decided, but since the exporting countries cannot be other than in favour of an increase, and other importing countries are interested, for reasons connected with foreign exchange, in returning to the lower minimum prices fixed by the Agreement as soon as they have overcome present difficulties in regard to production costs, the proposal should be considered a suitable compromise.

3. The plan for European economic revival would suggest that if in a new agreement Argentina and U.S.S.R. still remain absent, the established quantities should, until equilibrium is regained, decrease gradually in proportion to the diminution in estimated importation needs. Thus the quantity purchasable outside the fixed quotas would in turn be proportional, and so offer the importing countries a constant possible compensation for eventual losses attaching to the obligatory minimum price, especially in regard to the difficulties of their balances of international payments.

We hope that the world has set its foot definitely on the road of general international agreements. We hope that in the wake of the Wheat Agreement others may follow for all essential products; and that, above all, there may follow an accord for the transfer of manpower which will result in improved conditions and full employment of the most important of the productive factors.

SOURCES OF FIGURES IN TABLES: *Annuaire International de Statistique Agricole*, Institut International d'Agriculture; Food and Agriculture Organization; *The Economist*; *Records and Statistics*.