

Küng, Emil

Article — Digitized Version

International staple commodity agreements

Intereconomics

Suggested Citation: Küng, Emil (1968) : International staple commodity agreements, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 3, pp. 80-82,
<https://doi.org/10.1007/BF02930301>

This Version is available at:

<https://hdl.handle.net/10419/137900>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

International Staple Commodity Agreements

by Professor Dr Emil K  ng, St Gallen

It is indisputable that, when the price mechanism is allowed to function freely, the price curves of most staple commodities (raw material and foodstuffs) undergo extremely violent upward and downward fluctuations. At the same time the type of goods dealt in on the world commodity markets are important export products for developing countries—often the sole crop under cultivation there, from the sales of which derive the main foreign currency earnings of the economies in question. We shall not examine the causes of these drastic price fluctuations; it may be because, in the short-term, both supply and demand are inelastic in their price reactions, or because speculation often has an unstabilising, instead of a stabilising, effect, etc. But whatever the cause may be, such hectic fluctuations are extremely undesirable for the affected producers; for, it is impossible to plan systematically a long-term industrialisation when the inward flow of international currencies is at one time very great, but shortly thereafter extremely low. Is not this foreign exchange the indispensable basis for obtaining imported capital goods?

There is far-reaching agreement that, in one way or another, the price mechanism must be "refined". Somehow, price curves must be ironed out, that is, greater price stability over a period of time must be achieved. The foreign exchange markets are referred to as an example, where, as a rule, prices of foreign currencies are also not left to find their level, but are manipulated and stabilised by the responsible central banks. Thus, it is intended to avoid those distortions which result from violent fluctuations, when goods, services or capital are imported or exported. Should this system not be extended to the major staple commodities?

The Pool Solution

There are certainly convincing arguments in favour of this solution. It could be organised along the lines of central bank procedure, with one organisation undertaking to buy up all the goods offered immediately the price threatens to fall below a certain minimum; vice versa, the pool administration would have to become the seller and offer goods to the market when demand is going to force the free market price above a predetermined upper limit. However, this is not the only conceivable form of stabilisation; it could also be operated with buying and selling undertakings from individual governments—like e.g. the wheat agreement. Whatever form it

is to take, the essential thing is to achieve a drastic reduction in the range of price fluctuation.

The "Equitable" Price

This is one of the clearest examples of the divergence between normal economic "market" laws and the interests of the participants under the cloak of equity postulations. One easily assumes that the representatives of producing countries will take the view that the price level to be fixed should be as high as possible. They attempt to justify this demand by saying that they are in favour of an "equitable" price. In support of this argument, they cite past circumstances, when the actual price average more or less corresponded to what they wanted.

What happens when these demands are considered with altruistic intentions? To find out, let us assume that the demanded "equitable" price is set higher than the price in line with the market—taking as the market price that which, in the long term, by and large balances the amounts produced and those consumed per period. If the stabilisation price is as high as the price in line with the market, it might still happen that one year, because of a bumper crop, the market price would fall below the equilibrium price and that the trade's or the pool's stocks would increase. It would equally well be possible, in a different year, for supplies to be lower, so that quoted prices would rise and stocks be run down. However, the important thing is that these movements should balance out in the long term.

Resulting Disequilibrium

On the other hand, just this equilibrium would not be maintained when the "equitable" stabilisation price would rise above the market level. For, in such a case, producers would be induced to increase production. The quantities offered would gradually increase—even beyond the point where the consumer was prepared to buy at current prices. Inevitably, stocks would increase. If the pool were obliged to hold prices stable and, in order to do so, had to buy up the goods offered it, its warehouses would gradually fill, whilst its coffers emptied.

Naturally, such a process could not last long. The end would perhaps come when warehousing facilities were exhausted. It is, of course, even more probable that the pool would run out of funds to finance further purchases and that the governments behind it would not be prepared to go on providing still fur-

ther funds. That is to say, sooner or later this policy would have to be abandoned. The basic cause of its failure would have been the attempt to fix an excessively high price.

Experiences Gained by Cartels

It is true that numerous stabilisation bodies have already gained this fateful experience. Obviously, such moves do not always necessarily stem from governments. Identical difficulties arise, too, when, for instance, cartels of private producers endeavour to maintain a price which, although appearing equitable to certain interested parties, is, when considered objectively, higher than the long-term equilibrium level. Obviously, the temptation to fix a high price is overwhelming. So long as it is in the power of interested producers to fix prices apparently as they please, they will certainly not choose a level contrary to their short-term interests, as they see them. Such disregard of market laws is, however, absolutely catastrophic: losses connected with the collapse of the whole experiment will be the greater, the longer the attempt to fight against market forces is continued.

As soon as dealers, processors and consumers notice that stocks are rising steadily, they lose confidence. They foresee that sooner or later stabilisation will end and that a period will follow when market prices will be corrected at a drastically lower level. With this in mind, they will reduce orders and bring their stocks down to a minimum, thus restricting current demand still further, so that the "dreadful end" is advanced, because the accumulation of surplus stocks is accelerated by this development. There is, of course, no remedy against such reaction and anticipation by consumers.

Certainly, there are still opportunities for a well organised cartel to prevent collapse. It can influence the quantities produced and put into circulation. For instance, member governments order restrictions upon cultivation of certain crops. Export quotas are fixed for all member countries and these must not be exceeded. Where groups of private industries hold monopolies, individual producers are told what their maximum sales may be; "excess sales" are subject to penalties. However, all such non-conformal restrictions are only a final indication of the fact that an artificially maintained price is not in line with the market but, in a certain sense, contains an element of profiteering. Consumers are, in fact, being exploited if we compare the long-term equilibrium price and take this as the norm.

Equitable for Whom?

It can be seen from the above that the prices laid down in the international staple goods agreements are all too often prices which may well appear equitable to one market party but which, when examined more closely, do not merit to be called "equitable". Certainly there is no objection at all to the attempts

that are made to achieve greater price stability with the passage of time and thus far to refine the price mechanism. Criticism must, however, be voiced where the endeavour to achieve stability is used to protect the interests of one party at the expense of the other, all in the name of equity.

This holds, even when the sellers really are poor producers in developing countries: from the point of view of real need, there is certainly something to be said here in favour of a relatively high price. For as soon as prices rise above the price in line with the market, the system can only stand up if restrictions are placed upon supplies. In such a case the achievement of equilibrium—which would otherwise occur through the price mechanism—is left to administrative controls. It is left to non-conformable interventions to hold the quantities produced and placed upon the market below what they would be if the price mechanism were functioning (even in a refined form). This means that the supply of goods available to the consumer will thus be impaired intentionally. The practical effects of this are that consumers will have to pay excessively high prices and are therefore able to afford less than under free market conditions. It is obvious that this is contrary to their interests. There is no free and equitable exchange, since one of the two parties has, by mobilising market forces, enforced trading conditions which procure him a rental income not earned by services performed.

How to Succeed

However, this type of policy is profitable to suppliers only in very special circumstances. The demand for a certain product must contain a relatively low degree of price elasticity. Only then does the profiteer obtain a larger overall profit from high prices than he does from low ones. This is very often what happens with foodstuffs and raw materials, although less frequently with industrial finished products. It points up the fact that the consumer cannot, or will not, go over to substitute goods and that he is apparently largely dependent upon the product in question. Deliberate restriction of supplies, together with inordinately high prices, appears yet more serious in this case.

This is particularly true when supplies are cut down by burning piled up stocks of coffee or wheat or by dumping them into the sea. It is, of course, not to be overlooked that such conduct may appear expedient to the owners of these stocks, in order to obtain a maximum cash yield. But buyers and world opinion will not countenance any such deliberate destruction of economic assets. It is naturally important to apportion the blame properly. It is not "capitalism" which is to blame nor even the "price mechanism", but a certain cartel policy.

Consideration of Consumer Interests

Fortunately, even where a cartel policy is pursued, there is a limit to everything. Looking at price elasticity of demand, there is obviously a considerable dif-

ference between the size of this co-efficient considered in the short or in the long-term. In the short-term, it is very often correct that buyers pay a higher price without cutting down on the quantities purchased. On the other hand, if the price is held artificially high over a longer period, the substitution process becomes more apparent. Aluminium is used in place of copper. Consumer habits change and a new food replaces a relatively expensive one. Technical progress is encouraged to produce substitute goods.

May be not all producers are in the cartel; outsiders then have an opportunity to take advantage of the situation which has been created; they expand production and increase their market share by slightly undercutting the cartel prices. When this happens, certain cartel members may be induced to break the discipline imposed upon them. In short: competition and technical advance are reactivated, in the long term, to protect consumer interests. They ensure that organised suppliers cannot carry exploitation too far; they are forced to take stock of how far they can go and this ensures a certain moderation.

None of this detracts from the diagnosis that, in the above case, a mighty organisation, because of the power it wields, is able to fix trading conditions to benefit its members, in such a way that the equilibrium between performance and counter-performance is upset, that a free market would bring about. It is no wonder, therefore, that it is considered essential for international agreements on staple goods to take sufficient account of consumer interests—perhaps in the form that producer and consumer countries should have equal representation in the official body. If no provision is made for the representation of the “forgotten factor”—the consumers—the opposing party may well impose a compulsory levy upon this group, without it having any explicit right to make itself heard. This is definitely contradictory to all tenets of justice. Where a unilateral cartel policy is pursued, the temptation is all too great to set the price higher than that justified by the long-term level of equilibrium—with the obvious consequence that sellers are forced to take various control measures, so that what was, perhaps, originally a harmless price cartel may become a quantity cartel with production quotas.

DEVELOPMENT AID

The International Finance Corporation

by Alexander Funkenberg, Frankfurt-on-Main

According to Article I of the Agreement on Forming the International Finance Corporation (IFC), it will be the task of this Corporation to assist economic development by promoting productive private enterprise in the member countries, especially in the less highly developed areas. The fact that twelve years have already passed from the moment of creating an efficient instrument for actively supporting private economic initiatives, which at the same time may be suitable for helping to set up national capital markets and to revive international capital movements, is ample justification for a thorough discussion of the activities of this subsidiary body of the World Bank. It can, moreover, be proved that the IFC, in almost all the cases where it has intervened, has been very successful, and therefore it seems amazing that hardly anything has ever been published about its activities.

The IFC's Tasks

Among the most important fields of operation for the IFC are the acquisition of capital shares in private companies and the granting of long-term loans. The Corporation, incidentally, makes its investments under conditions designed to attract private investors to sink additional funds in the same ventures, which would permit the Corporation to sell its capital interest, provided an acceptable price will be offered.

If and when such transactions are possible, the IFC's funds will be enabled to revolve and thus to spread their influence widely.

IFC also issues standby credits and underwrites guarantees supporting the launching of share issues, and it lastly also assists privately financed development banks both financially and technically. The moment when IFC becomes active arrives when help needed by a company for financing its activities or a particular venture can no longer be mobilised by a local bank or in its own national capital market. Among the forms of financing used by IFC are direct investments, credit lines upon which the debtor may draw, and the underwriting of share issues, as well as similar forms of financing.

It is worth-while emphasising that IFC will never interfere, or take part, in managing a company or corporation accepting an IFC credit. Management tasks are always left to IFC's partners in the project supported. Generally, IFC will not take a higher interest in any company's share capital than 25 per cent, nor will the Corporation ever become a majority shareholder. IFC does not ask for, nor will it accept, government guarantees for the redemption of its credits or investments. For this reason IFC is precluded, by its charter, from investing in state-owned or state-run concerns. On the other hand, IFC is not pre-