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tively raised and thus the scope for IMF credits to them enlarged. When the quotas were increased last, in 1969, the industrialised countries similarly accepted smaller additions to their quotas than they were entitled to by calculations according to the Bretton Woods formula, with consequent benefits for the developing countries. The IMF has also made allowance for the special liquidity requirements of the primary producing countries within the compass of its drawings policy by conceding to these countries

SDR's to offset shortfalls in export proceeds and to finance payments to international commodity buffer pools.

When the decision was taken on the rules for the election of directors in 1970, the IMF promised to undertake a study to examine the quota structure and vote distribution in the IMF. In this context the IMF Board will have to concern itself again with the question of securing a satisfactory share in the international liquidity supply for the LDC's.

The World Commodity Markets in 1970

by Heinz Kolbe, Hamburg

Price trends on the world commodity markets have been far from uniform in the course of 1970. The food prices rose from December 1969 to December 1970 on average by no less than 8 p.c. After years when in some markets supply greatly exceeded demand, production has latterly scarcely kept up with requirements with the result that it is feared that shortages will develop in the not too distant future. In the world markets for industrial raw materials, on the other hand, the slowing down of boom conditions everywhere led from May 1970 to a steady decline of prices on a broad front. In the twelve months from May 1968 until May 1969, the level of prices for industrial raw materials had risen by 18 p.c. in consequence of the boom conditions in the Western countries and as a result of particularly heavy raw material purchases by the Eastern Bloc states. Since May 1969, prices have again steadily receded, however, by 5 p.c. In the course of the past year—from the end of December 1969 until the end of December 1970—price levels actually declined, however, by no more than 3 p.c., the relatively small loss being due to the rises that had taken place during the early part of the period, i.e. until May. In fact, the annual average for 1970 is even 5 p.c. higher than that of 1969. This is due to the difference between the state of affairs as it existed at the end of 1969 and the average for the year.

Market Trends

Since spring 1970, non-ferrous metals and steel have become cheaper in the export markets. The

downward trend for rubber and wool, which had already set in earlier, continued for most of the time, with the exception of the last few weeks. On the other hand, prices for cotton and fuels—partly influenced by special factors—have risen. On the food markets supply shortages led to price increases for sugar, coffee, oilseeds and vegetable oils. 1970 also witnessed higher prices for grain, meat and dairy produce, whereas cocoa quotations, after soaring for two years, registered a marked decline.

The rise in world market prices since 1968 was from the export earning's point of view of the typical producer-countries as for instance the developing countries all the more important as the industrial products which they import became dearer at the same time. For the industrial countries, on the other hand, the boom prevailing on the commodity markets was a considerable cost factor which accentuated the strong general upward price trend. By contrast, the more recent decline of the prices for industrial raw materials is now having a most welcome effect inasmuch as it helps to damp down the tendency for prices to rise. But there is a reverse to the medal: the lightening of the industrial countries' burdens means on the other hand losses for the developing countries. True, the latter had previously been able to stock up their foreign exchange reserves so that they should be able to increase their imports for some time yet even if the deterioration of the state of the export markets should result in smaller revenues from their exports.

Sensitive Industrial Raw Material Prices

In 1970, price trends on the markets for industrial raw materials proved once again their extreme sensitivity to the economic climate prevailing in the Western world. In the United States, raw material consumption declined as a result of the continued decline of industrial production. Already by the end of 1969, the price for natural rubber for instance had fallen sharply because of the slowing down of the US motorcar production. Following the decline in the American demand for raw materials, which led to larger stocks being held by producers and a marking down of firm selling prices, manufacturers in Western Europe and Japan also exercised restraint in replenishing their stocks. Besides, as far as the countries of Western Europe are concerned, raw material consumption decelerated during the second half of 1970 in unison with the slower pace of economic expansion. Buyers of raw materials showed all the more restraint as the still very high cost of finance made them reluctant to increase their stocks to beyond the strict minimum required to ensure smooth production.

Little Reaction to Political Crises

The development of supply and demand and thus of prices on the world's raw material markets reflect not only business trends in industrial countries and the expectations of producers and consumers. There are other factors like strikes, political and military crises and currency speculation which bring their influence to bear on the situation. But more often than not such factors are responsible only for price increases of very short duration. In the long run the role of the world market prices as prime indicator of economic trends is not influenced by them. The strike of the British dockers in July 1970 led to no more than a temporary rise in the prices for some raw materials in the London markets. Processing firms and dealers feared that supplies might be difficult to come by and that a sterling crisis might develop, if the strike lasted a long time. These fears caused them not only to stock up but also to make speculative purchases as a hedge against possible foreign exchange losses. On the other hand, expectations of a strike in the American motorcar industry, which in the event materialised in the middle of September and lasted until the end of November 1970 in the American and Canadian factories of General Motors—one of the largest consumers of non-ferrous metals, rubber and other industrial raw materials—proved already from the middle of 1970 an additional depressing factor on the world markets.

The aggravation of the crises in South-East Asia (Cambodia) and in the Near-East (Jordan) influenced markets surprisingly little, steadying prices only very temporarily. Hostilities in the Near-East had hardly ceased when the upward pressure on prices was again in evidence. The reaction to these events was insignificant even on markets for directly affected raw materials. This even applied to tin, the supplies of which seemed to be threatened by the growing danger of a military attack on Thailand. In general it is true to say that in 1970 prices for strategic raw materials were scarcely affected by the dangerous political and military crises of the year, simply because in the opinion of buyers and sellers operating in these markets the risk of a war on a large scale is no longer as great as it used to be.

Non-ferrous Metals in Ample Supply

Supplies of industrial raw materials generally improved in the course of 1970, though early in the year there had been some bottle-necks. The output of non-ferrous metals, which already in 1969 had increased to a remarkable extent, was further expanded with the result that—aluminium and tin excepted—supplies should have exceeded consumption to a considerable degree. To prevent the accumulation of unwanted stocks and to arrest the decline in prices, the producers of zinc and lead finally agreed to restrict output when it became clear that support-buying was not enough to stabilise prices.

Copper producers of the so-called "Cippec-countries" (Chile, Peru, Zambia and Kongo) met repeatedly to discuss measures to stabilise prices without, however, arriving at any concrete decisions. For some time it was assumed that these countries might decide to stop the sale of copper and drastically to restrict copper production when the price for copper dropped below £ 480 per ton. But past experience shows that such attempts by producers alone are not successful as a means of influencing international raw material markets.

The International Tin Agreement, which has been in existence for some years now, scarcely exercised any influence on the market in 1970. Early in the year, the International Tin Council decided in view of the rapidly rising prices to lift restrictions on exports in order to stimulate tin output. No other possibility to stem the rising trend of prices was open to the Council because—partly for speculative reasons—Buffer Stock's holdings had all but been exhausted. Since that decision the decisive influence on the tin market is again being exercised by the selling policy of the

American stockpile administration which is at present rather restrained. Only if the price of tin should drop to below £ 1,460 per ton, could the manager of the buffer pool intervene by buying tin in the open market.

Far-reaching Regulations for Wool

International markets for textile fibres showed in 1970 highly divergent trends. There was on the whole no difficulty in meeting the less rapidly rising demand out of new production. In the case of cotton, restrictions which had been imposed in the USA on the cultivation of cotton in the 1969/70 season led to a further shrinkage of the already relatively low stocks, and this in turn caused steady price rises in the first six months of 1970. As in 1970/71 the world's cotton crop is unlikely to increase to any appreciable extent, prices remained high also during the second half of 1970.

On the world wool markets, further increases in production coupled with a slackening in demand caused prices to decline in 1970. In these circumstances large unsold stocks have accumulated in the major producing countries — stocks large enough to prevent prices from recovering for a long time to come. For this reason Australia instituted a new Wool Commission with far-reaching powers to regulate the selling of wool.

Early in 1970, the world rubber production, stimulated by the previous period of high prices, for a time went on expanding appreciably. It was therefore to be expected that when the consumption of rubber declined in the United States in line with the general business recession, rubber prices, too, declined. This downward trend was further accentuated when motorcar production in West Europe slowed down too, and the countries of the Eastern Bloc reduced their purchases of rubber.

US Restraint in Disposing of Stocks

The cautious stockpile policy of the USA helped in 1970 to keep price decreases in some raw material markets within limits. In the light of the de-escalation of hostilities in Vietnam and the changes in armament structure, stocks of certain raw material categories can now be considered to be excessive so that increased sales from the American strategic stocks should really have been quite possible. For instance during 1968 and 1969 the General Services Administration (GSA) had decided to sell from 1970 onwards some 6,000 to 8,000 tons annually from the surplus stock of 24,000 tons. The Bolivian Government protested however against such a line of action, and the US authorities finally gave in and postponed the proposed sales for the time being. Similarly, the

sales of rubber, which had only been resumed in 1969, were again stopped in response to complaints by Malaysia.

Scant Supplies of Foodstuffs

In the food markets, the large unsold stocks which until 1965 had accumulated because of over-production have since been appreciably reduced. Disappointing crops have caused bottle-necks in some markets and have given rise to fears that similar bottle-necks might occur in some others so that price increases might become inevitable. Under the International Sugar Agreement only 90 p.c. of the scheduled world export quota were released in 1970, notwithstanding the fact that some countries were unable to fill their allotted quotas. It was not until towards the end of the year that an attempt was made to put a brake on the rising trend of sugar prices by re-allocating unfilled export quotas to countries capable of increasing their shipments. As for coffee, the market expects supplies which were already relatively small in the 1969/70 season to dwindle still further in the 1970/71 season. This is because the Brazilian coffee crop, having suffered pest-damage, will turn out to be considerably below average. In these circumstances, increased quotas had only a limited effect on prices in 1970, for only a few countries were in a position to profit by the possibility offered to them to increase their exports. As far as wheat is concerned, the prospect of further large surpluses had caused several of the major producer countries to introduce voluntary restrictions of output in the hope that a drop in prices may thereby be avoided.

The cocoa market ended the 1969/70 season with a slight surplus — the first in four years. This surplus was due to an appreciable increase in production and caused prices to decline. Further talks were held in June 1970 on the possibility of concluding a cocoa stabilisation agreement under the auspices of UNCTAD but led to nothing. The producer countries demanded a price margin of between 25 and 34 c/lb, pointing out that during the previous two years prices had actually been well below that level. The consumer countries, on the other hand, were in favour of prices being kept between 20 and 29 c/lb — a margin which had previously been mentioned.

Possible Recovery of Industrial Raw Material Prices in 1971

It looks as if prices for industrial raw materials will remain under pressure for the greater part of 1971. The downward price trend for non-ferrous metals which continued even after work had been resumed in the American motorcar industry points

in this direction. The interruption of the business recovery in the USA which the strike had caused is likely to go on having a restricting effect on the demand for raw materials for some time yet, and not until the recession in the USA is seen to be truly past and the recovery has gone some way, is there any likelihood that the downward pressure on raw material prices that has been emanating from Western Europe will be equalised and the fall in prices halted. A strong recovery in the USA and a stop in time of the unfavourable developments in Western Europe would create the conditions in which raw material prices may yet recover before the end of 1971, especially as in such circumstances manufacturers may be more inclined to increase their stocks.

Raw materials should be in ample supply in 1971 barring exceptional interruptions in output and deliveries. But producers are likely to do their best to prevent prices from falling. It is difficult to forecast what the American stock-piling policy will be in the new year. On the one hand, the American authorities will want to lighten their financial burden by disposing of surplus raw

materials; on the other hand, their policy will have to continue taking into account the interests of the raw material producing developing countries.

If the above assumptions turn out to be correct, it is likely that 1971 will end up with raw material prices that are on average about 3 p.c. up on the year. This forecast already allows for the probability of further price rises for crude oil and its derivatives. Average prices for 1971 should however be between 3 and 3.5 p.c. lower than those of 1970.

As for the food markets, the latest revised crop estimates point to possibly still higher prices for sugar, coffee and grain. These may more than compensate for the slight price reductions that are expected for some other foodstuffs, and in the end the over-all price-level may well be 1 to 2 p.c. higher than it is at present. Should this be so, the average price level for 1971 may well be about 5 p.c. up on the 1970 average, for by the end of 1970 prices had already risen to such an extent that if the year-end level is merely maintained, 1971 is starting with prices that are already 3.5 p.c. above the average for 1970.

Peterson's Recommendations Inadequate

by Dr M. A. Hussein Mullick, Bonn

Press and other media of communication are not always the best judge. This is at least true in case of the Peterson Report, which unlike the world-publicised Pearson Report did not receive the attention it rightly deserved. The Report is a good document and on many accounts, perhaps, better in quality and forcefulness than the Pearson Report. The Commission appointed by the US-President was led by Rudolf A. Peterson, former President of the Bank of America, and included 15 other prominent figures, among them David Rockefeller, Edward S. Mason and Gottfried Haberler. It was given the task to examine the efficiency of US development policy and to give practical recommendations for the future.

Cumbersome Administration

In the views of the Commission, the present "...administration of US foreign assistance is excessively cumbersome... the equivalent of 700

full-time officials now is required to see that the regulations are followed." The Report further reveals that general aid figures are often misleading since in 1968/69 alone, as much as 52 p.c. of all American official foreign aid was given as "security assistance", including items such as military equipment and supplies and military or purely political assistance grants. International development received only 42 p.c., including sales of agricultural commodities which are still classified, questionably, as "development". The too expensive feature of the present aid programmes handled by the Agency for International Development (AID) which has its missions in almost all the beneficiary countries is also another point invoking criticism of the Commission.

In order both to improve the efficiency and at the same time the quality of the US aid programme, the Commission suggests a number of changes in the existing aid-organisational structure. US