

Moser, Carsten R.

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## Booming commodity prices

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## Booming Commodity Prices

If the United Nations Conference on Trade and Development would take place today, it would not be the less developed countries (LDCs), but probably the industrial countries that would argue in favour of international commodity agreements — as long as these agreements include low and high ceiling prices. For the last twelve months prices of raw materials have gone up at an unexpected rate, adding to the inflation worries of the western industrial world. The Index of the Hamburg Institute for International Economics went up from 117.7 in June 1972 to 172.2 in June 1973, and continues to show an upward tendency. The same applies to the Reuter's and Moody's indices, which were never on such a high level than during these months.

There are many reasons for this boom situation: on the one hand, there is the business upswing taking place in most industrial countries, which has induced a large demand for raw materials; on the other hand, the weakness of the pound and the dollar were accompanied by a run towards commodities — the consequence were constantly rising raw material prices which surpassed all experts' predictions. One explanation, however, is not valid: the price boom has nothing to do with the pessimistic outlook of the Club of Rome study regarding the future world commodity situation. The present development is a cyclical phenomenon — it has been observed in the past

and will also take place in the future.

No doubt the developing countries are benefiting from this development. They normally are still one-commodity exporting countries, which means that their foreign exchange situation depends to a large extent upon world sales and prices of this one product. The question is, however, whether this boom situation in the raw material markets is really as beneficial to them as it seems at first sight. For in the first place the LDCs, but also the dealers in industrial countries cash in on this situation. In the case of cocoa, for example, the 1968 boom induced an increase in wholesale prices in Europe of over 18 p.c.; however, the state owned trade company in Ghana could not afford to demand more than a 6.6 p.c. price increase.

In the second place past experience shows that the LDCs' urge to diversify their economic structure is at its highest whenever raw material prices are low. On the other hand, in boom situations many diversification measures are neglected in favour of measures to increase even more the commodity output. This general observation is not valid for all LDCs — but the number of nations that follow this short-sighted policy is still very high.

The big hangover for most countries comes when the commodity price boom slackens and a slump starts. It is therefore

rather essential for the responsible personalities in development organisations and LDCs to continue to pursue international commodity agreements with the same eagerness also during boom phases. A steady stream of foreign exchange earnings from raw materials sales — as a result of such agreements — would enable them to plan in the long run the programmes necessary to diversify their economies. This would also to a certain extent eliminate the speculative element still dominant in the raw material markets.

When the demand for commodity agreements is voiced, one argument comes up: it would be very difficult to find a common denominator between a number of countries with different interests. But in order to overcome this problem, commodity agreements on a multilateral basis could be negotiated, as was suggested some time ago by the former EEC President Sicco Mansholt. For it would then be easier for some countries to give way in some points if they see that they are gaining something in others. The participating countries should at least consider this idea during the forthcoming GATT negotiations.

These negotiations, which according to experts will carry on for a number of years, offer a brilliant opportunity to bring economic relations between developing and developed countries on a completely new basis. It is to be hoped that this chance will be taken! *Carsten R. Moser*