COMMODITY MARKETS

International Staple Commodity Agreements

by Professor Dr Emil Künig, 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-
Certainly there is no objection at all to the attempts more closely, do not merit to be called "equitable". Consumers are, in fact, being exploited if we compare the long-term equilibrium price and take this in a certain sense, contains an element of profiteering. 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-

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